Prime Minister 2
Energy
To note: this is referred to in the Budget speech.
MR
9/3

PRIME MINISTER

BNOC OIL BONDS

In E Committee last September we approved a scheme for the sale of revenue bonds aimed at the small saver, which would be free from capital risk but have a rate of return linked to revenues received by the British National Oil Corporation (BNOC) from the North Sea (E(80)32nd meeting). With the agreement of colleagues I announced this decision at the Party Conference in Brighton in October.

10/9/80 item 2

2. Work on the scheme is well-advanced, and the Chancellor of the Exchequer and I are in agreement on its main features.

a. Income on the bonds will be determined by an index based on the sterling value of the North Sea crude oil to which BNOC is entitled under its equity and participation arrangements.

b. The bonds will have a maturity of 5 years but be encashable at any time through Post Offices.

c. There will be a minimum holding of £25 and an initial maximum, for the time being at least, of £2,000.

d. There will be a specified basic annual return which will be guaranteed and indexed. Because it is the coupon and not the capital that is indexed the Government is protected against a sharp rise in the cost.

e. The instruments will technically be national savings certificates and so exempt from income tax and capital gains tax, but will be marketed so as to give them a suitable image.

f. The issue will, like a normal DNS issue, be open-ended both in amount and time but with provision for it to be closed at short notice.

/3...

3. The possibility of making the bonds tradeable on the Stock Exchange has been explored but it would have unacceptable consequences. In particular there would be a conflict between marketability and our objective of making bonds available to a wide range of the general public, not least because the minimum holding would have to be higher. There would also be a problem of combining a guaranteed return and marketability. The Chancellor and I agree that the bonds should not be marketable.

4. The main problem facing the scheme lies in depletion policy. The Attorney General advises that an adequate disclaimer to preserve the Government's freedom of action could, in a strict legal sense, be drawn up and included in the prospectus; but the Government might still in practice feel constrained if depletion measures under consideration would affect bondholders. This is a problem with any scheme linked to North Sea output. However bondholders would be protected by a minimum rate of return on their bonds and by being able to encash them at any time after the first year with only a minimum penalty if they felt that Government decisions made the future income on bonds look unattractive.

5. Another point is the possibility that privatisation might affect the index by reducing BNOC's equity oil. But this could be met by adjusting the base of the index, though we would not necessarily refer to this in the prospectus.

6. Overall the scheme would be an imaginative addition to the options open to the small saver, giving them a real opportunity to share more directly in our North Sea resources through BNOC.

7. The Chancellor proposes to refer to the scheme in his Budget speech tomorrow. Full details will be announced closer to the launch of the scheme in the autumn.

8. I am copying this to the Chancellor of the Exchequer, the Financial Secretary, other members of E Committee, the Attorney General and Sir Robert Armstrong.

DH

SECRETARY OF STATE FOR ENERGY 9 March 1981