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mf

PRIME MINISTER

BP RIGHTS ISSUE

BP have told us that they wish to mount a rights issue to raise some £500m-£700m. Provided that market conditions are right, they plan the issue to take place on about 18 June.

2. It would cost the Treasury some £125m-£175m to subscribe for our share of the issue and the Bank some £100m-£140m for their share of the BP stock acquired from Burmah. Extra public expenditure of £225m-£315m is highly likely to result in a breach of the Contingency Reserve later in the year in view of the other threats on the Reserve in prospect. I believe it essential to avoid such an increase, and indeed to sell certainly the Treasury's rights, and if possible the Bank's, for the best possible price in order to obtain a small, but useful, public expenditure benefit.

3. In this minute I recommend how this should be done.

Reasons for the Rights Issue

4. Without a rights issue, BP's debt/equity ratio would rise to levels which they would regard as unacceptable. Their judgement of stock market conditions is that the sooner the rights issue is mounted, the better for their commercial interest. I think that we cannot avoid accepting BP's commercial judgement about their need for a rights issue of £500m-£700m.

Prime Minister

Are you content with Chancellor's proposals, subject to your usual disclaimer that you have to leave the handling of the Burmah aspect to him?

*TL
M/S*



Effect of the Rights Issue on the Treasury and Bank's Shareholding in BP

5. The Treasury and the Bank's percentage shareholding in BP is as follows:

	<u>Ordinary Shares</u>	<u>% Votes</u>
Treasury	25.0	24.9
Bank	19.6	19.5
Total	<u>44.6</u>	<u>44.5</u> (rounded)

(i) The percentage share of votes in general meetings is very slightly lower because of the voting rights of the preference shareholders.

(ii) For the reasons explained in paragraph 7(ii) below, the Bank's shares are for the moment disenfranchised.

6. If both the Treasury and the Bank take up their full entitlement of shares under the rights issue, their respective percentage shareholdings would not change. But if neither take up their rights, the effect on their shareholding is as follows:-

	<u>Ordinary Shares*</u>		<u>% Reduction</u>	
	£500m - £700m		£500m - £700m	
Treasury	22.6	21.8	2.4	3.2
Bank	<u>17.7</u>	<u>17.1</u>	<u>1.8</u>	<u>2.5</u>
Total	<u>40.4</u>	<u>38.9</u>	<u>4.2</u>	<u>5.7</u>

*This assumes a rights issue price of £3.00. If the issue price was e.g. £2.50, the Treasury's holding would fall by a further 0.5 per cent and the Bank's by 0.4 per cent.

7. The table above demonstrates that if the Treasury do not



take up their rights, the Treasury's voting strength in the Company, excluding the Bank's holding, would fall further below the 25 per cent which is required to block special resolutions. A special resolution is necessary to change the Articles which empower the Treasury to appoint two directors to the Board with a power of veto. But the significance of the 25 per cent should not be exaggerated for two reasons.

- (i) In practice, a voting strength some way below 25 per cent should prove sufficient to block such resolutions, since it is unlikely that their proposers would be able to muster all the remaining votes in support of the resolution.
- (ii) The Government's effective holding would only fall below 25 per cent in the longer term in what the lawyers have advised us is the unlikely event of Burmah succeeding in their claim against the Bank for the BP shares. If the Bank win and their shares are transferred to the Treasury, the Government's voting strength would be well above 25 per cent even if the Treasury (and the Bank) do not take up their rights, as is demonstrated by the total figures in the first table in paragraph 6 above. Meanwhile, while the Bank's shares are disenfranchised under the agreement reached with the Take Over Panel when the Bank took over the Burmah shares - and this can continue during the Court action - the Treasury's share of the votes which can be cast at meetings would remain above 25 per cent (or only a little below if we followed the course referred to in paragraph 12 below).

The Treasury's Rights

8. I do not believe that expenditure of some £125m-£175m



for subscription to the Treasury's rights could be justified at a time when our top priority must be to contain public expenditure and the PSBR. Indeed, our aim should be to sell the Treasury's rights. The amount received will depend very much on market conditions at the time of the issue.

Agreed not

9. I should be glad of your agreement to this course.

The Bank's Rights

10. The Bank's rights arise from the shares acquired from Burmah, now the subject of litigation due to begin in the High Court on 2 June. A decision on the Bank's rights must inevitably take account of the Burmah case. You have already told me that you must leave matters to do with the Burmah litigation entirely to me. But you may wish to know how I propose to avoid the increase in public expenditure of £100m-£140m from the Bank's subscription since the payment counts directly as public expenditure.

11. Sir David Steel has agreed that Sir Alastair Down and the Burmah Board can be told in advance about the rights issue with a view to seeking Burmah's co-operation in the sale of the Bank's rights. Without such co-operation, Burmah might seek to frustrate the sale of the rights, e.g. by disputing legal title, and there could also be political criticism from the Shareholders' Action Group.

12. I am still considering whether such an approach should be made to Burmah, and if so its prospects of success. If the approach was not made, or if it failed, e.g. because Burmah insisted on attaching unreasonable conditions to their co-operation, the Bank would have to subscribe for their rights in the normal way. If BP agree the mechanics - and this is by no means certain - it should be possible to offset the public expenditure cost of £100m-£140m by a sale of a small part of the Treasury's existing holding of BP shares.



This would bring the Treasury's holding, after taking account of the sale of the Treasury's rights, to some 19-20 per cent. The Bank's holding in BP would remain at its present 19.6 per cent.

13. Finally, you should know that David Howell will be minuting you shortly about the timing of decisions and announcements on depletion policy on which the rights issue has an important bearing. The Attorney General has advised that any decision and statement on depletion policy should be made at least three weeks in advance of the announcement of the rights issue or well after it to meet SSC and stock exchange requirements.

14. I am sending a copy of this minute to Peter Carrington and David Howell. I know that they will appreciate the importance of keeping knowledge of the rights issue to as few people as possible in view of its commercial sensitivity. I am also sending a copy of this minute to the Attorney General with whom I have already discussed the legal aspects involving the Burmah case.

(G.H.)

11 May 1981

*l will be
putting this
in to you
at the weekend*

D.