

Prime Minister.

Would you like to  
discuss this with the

Chancellor and Mr Howell?

I agree with  
D.H. MS.

John  
H.V.

PERSONAL AND CONFIDENTIAL

Rt Hon. Sir Geoffrey Howe QC MP  
The Chancellor of the Exchequer  
Treasury Chambers  
Parliament St  
London  
SW1

14 May 1981

Dear Geoff

PRIVATISATION OF BNO

The time is ripe in my view for a decisive step towards the privatisation of BNO.

The Party wants it. The legislation is drawn up and ready and has a firm slot early in the next Session. The Chairman of BNO is anxious to go this way and tells me that many of his staff feel the same. It fits squarely into our wider strategy.

I have been thinking further how we should proceed. I would like to see the upstream organisation right out of the public sector, and therefore away from the PSBR, but with a substantial Government stake, say 49%, with some rights reserved to Government and possibly with a couple of Government directors on the Board of the new company.

I would want the company to be proof in practical terms against predators and in particular against passing under foreign control (which I currently believe can be ensured without coming up against the Treaty of Rome albeit at some cost through the share valuation), and to retain as far as possible certain "flagship" qualities, which the Chairman believes would be ensured by the Company's origins, name and large Government interest. (In dealing with certain countries, eg the USA, one in fact needs to play this the other way and emphasise its private sector nature).

I believe these objections can be achieved, though a special effort will be needed to demonstrate this publicly. The part of the Corporation which deals with the participation agreements, the trading component, should stay in the public sector. That involves about 60 people out of the total BNO staff of some 1900. Philip Shelbourne sees no difficulty in this operating as a separate Government entity. The major part of the Corporation would form a new oil

company, British National Oil, and 51% would be put on sale.

As well as attracting support in our party, this scheme will of course arouse strong feelings amongst the Opposition and perhaps some public concern. There will be talk of loss of "control" of UK oil. But since I propose retaining the participation agreements our present degree of security will be little affected. Assuming that the new company has a participation agreement like other oil companies then it is only the other half of its equity oil (about 4m tonnes a year) which will pass out of the kind of Government control under which it is at present deemed to be. But this too will be criticised. There will also be ill-founded criticisms of the loss of the Corporation's revenue to the Exchequer and the loss of a state body to undertake uncommercial activities "in the national interest". We will be accused by opponents of "selling off" a national asset.

Against all this, there will be a large capital sum for Exchequer, reducing the PSBR and therefore having its own earning power. There will be wider general public ownership. And in particular, there will be a lively British oil company, relatively small by multi-national standards still, but with excellent prospects and freedom to develop and expand both here and overseas to the benefit of Britain. There is in fact no doubt in my mind that those who are genuinely interested in the future health and viability of BNOC as a business support the present Chairman's view that it will only prosper outside the public sector.

There is no point in my proceeding with the final work on this scheme and putting officials, bankers, BNOC staff, and, indeed, colleagues, through the hoop again, unless Cabinet is likely to give it firm support. In particular I do need and value your own commitment to a privatisation measure of this kind.

If your reaction is clearly positive I will tell my officials to complete work swiftly, to clear it with your officials, and present a detailed scheme. In taking the already prepared BNOC legislation through Parliament in the next Session I would then indicate that we had now settled on a scheme, the sale to occur as soon after Royal Assent as market conditions allowed.

I would be extremely grateful for your early personal comments. In view of the nature of this letter I am of course not copying it around. But I am sending a copy to Margaret.

Yours ever

David  
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