Mr Lawson's great oil gamble

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Mr Nigel Lawson, the Secretary of State for Energy, cannot be accused of lacking the courage of his convictions. At the time when conditions on the stock market and in the oil industry have deteriorated to a point where many feel they could hardly be less suitable for such a move, Mr Lawson is stepping up his efforts to sell all Britain's state-owned oil assets to the private sector.

It is an act of faith that will undoubtedly expose him to more political flak, and renewed accusations that he is disposing of valuable national assets on the cheap.

In the last few weeks, Mr Lawson has moved ahead on three separate fronts towards his goal of completing the virtually total withdrawal of the public sector from the oil production business.

On August 1, he hived off the production and exploration assets of the British National Oil Corporation into a new company, Britoil, and has since appointed four firms of stockbrokers to help handle the offer of 51 per cent of the shares in this new company, scheduled for flotation in November.

This month has also seen the start of British Gas's long-awaited efforts to find a buyer for its half share in Wytch Farm, Britain's largest onshore oil field, a disposal first wished on the reluctant corporation by the Government last year.

At the same time Mr Lawson has now told British Gas's chairman, Sir Denis Rooke, to prepare for the imminent disposal — by straight sale or stock market flotation — of his equity interests in five North Sea oil fields.

This major divestment programme was foreshadowed in general terms last year, has been mulled over ad nauseam by Parliament, and is very much in line with the thrust of the Government's privatization philosophy. It is not the fault of the zealous Mr Lawson that the climate for his great sell-off should have taken such a turn for the worse in the last few months, but such is the reality.

Oil prices remain stubbornly weak, shares on the stock market have tumbled by over 40 per cent since their peak in November, 1980, and the cash and profits squeeze in the world's richest industry has developed into such a self-righteous mood of austerity that even Exxon, scion of John D. Rockefeller and the world's largest oil company, no longer sends most of its senior executives first class on airlines.

Investors in London and on Wall Street are mostly steering clear of oil shares after getting burned in the wake of the 1979/80 boom, to the point where British exploration companies such as Lasmo and Tricentrol are trading at a discount of between 25 and 40 per cent of their estimated asset value.

Earlier this month a small exploration company was floated on the London market at too high a price and only 3 per cent of the shares on offer were subscribed for, a salutary reminder that oil is yesterday's investment fad.

It is a brave — or foolhardy — man who steps into this arena as a willing seller, and hopes to get a full price for his oil assets. Yet this is the task Mr Lawson has set himself.

After the furore over the Amersham International flotation earlier this year, when the shares were 23 times oversubscribed, the Government is naturally sensitive to charges of selling state industries at below their inherent value. Mr Lawson has already promised that the Britoil flotation this autumn will be deferred if the market conditions are not right.

Two years ago, Whitehall and the City estimated that 51 per cent of the shares in Britoil would raise over £1,000m. Earlier this year the target was lowered to £750m, and now Mr Philip Shelbourne, Britoil's chairman, says the proceeds may be only £600m.

Britoil will still be — or can be made to be — an attractive investment for the City professionals who will determine the success or failure of the issue. It is an asset-rich company with plenty of promising exploration prospects, and does not suffer from having loss-making refineries to worry about.

But the company suffers from being too dependent on the North Sea, which with its high development costs and onerous tax regime — for which Mr Lawson in his Treasury days has not a little responsibility — is no longer the popular oil province it once was for the industry.

For complicated technical and historical reasons, it also has an unsatisfactory balance sheet, and it is a fair bet that the Government will have to inject some taxpayers' money — say £200m — into the corporation to prepare it for private sector life.

Nobody should doubt Mr Lawson's commitment to privatization. His instinct is to press ahead at whatever cost. He seems happy to argue that the benefits that will flow from a change in ownership are more important than a difference of a few million pounds in the asking price. But with the Public Accounts Committee and the Comptroller and Auditor General breathing over his shoulder, his arguments need to be good.

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