

010 4.44

CC/NO

SECRET



Prime Minister

①

Agree this

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Treasury Chambers, Parliament Street, SW1P 3AG approach - i.e.
01-233 3000

PRIME MINISTER

BP SHARE SALE

Yes (i) postponing offer to 21 Sept
Yes (ii) selling by tender
(iii) ruling out further sales
Yes - see over page. to Sept 1985?
MCS 9/9

We discussed on Wednesday the problems raised by BP's proposal to dispose of up to 10 per cent of the Forties field. As you know, BP went ahead and announced their proposal, despite Peter Walker's letter warning them that he could not give them any assurance that consent would be given for the assignment of the production licence that might be required. He is taking urgent advice from the Law Officers on whether his powers to refuse consent are sufficient in this instance.

2. I very much hope the Law Officers' advice will be favourable. If, on the other hand, their advice is that these powers may not be relied upon, we agreed that we would have to take immediate action to reduce the potential tax cost of deals of this kind. We cannot immediately stop all of the costs but we could reduce the PRT costs by curtailing the scope for companies to set exploration and appraisal expenditure against PRT on field interests which they have bought.

3. The Inland Revenue have formulated a number of ideas on the way such a restriction might operate. It may be possible to frame legislation which would discourage the BP deal or substantially reduce its cost; but to go too far might undesirably restrict the incentive to future North Sea activity which we introduced in the last Budget or might prevent farm-outs over a wider range than is desirable. Other less restrictive variants might be possible which would at least reduce the scope for costly imitations of BP. These ideas will be put to Department of Energy officials, and I plan to discuss them with Peter Walker so that if the Law Officers' advice is unfavourable, or delayed, we could announce in the next few days that we would legislate retrospectively to the date of the announcement.

4. Clearly BP's proposal and our response to it are closely linked with the plans to dispose of part of the Government's share-holding in the company. Now



that they have made an announcement which is likely to be regarded as favourable to the company, we could not proceed with the offer without having indicated either that we were not going to agree to the proposal or that the scheme would not have such tax advantages to BP as were originally envisaged.

5. I do not realistically think that we can resolve all this in time for an offer next Wednesday. My intention therefore is to proceed on the second of the two dates we had set aside, Wednesday 21 September, having made an announcement about our intentions by the end of next week. In the meantime, we shall need to ensure, through off the record press briefing, that the market knows that Government agreement to the BP proposals is by no means assured.

6. Meanwhile I am continuing work on the details of the offer. The most important feature is the choice between a fixed price offer and a tender. The arguments are finely balanced. There is no doubt that the market would prefer to see a fixed price offer and the advice we have received is that the price at which the offer could be underwritten would be lower with a tender. Very broadly, the differences might be a discount of 3 per cent (12p) for a fixed price offer compared with up to 6 per cent (24p) for a tender. Thus it could be argued that the proceeds of a fixed price offer might be some £15 million higher than those of a tender, if the striking price turns out to be the minimum tender price.

7. There are, however, other considerations to be taken into account. There is a chance, and certainly not a negligible one, that following the announcement, the price of the shares could rise. With a fixed price offer there could again, with a Government share sale, be a heavily staged offer leading to accusations that the Government had given away money. While a tender does not cover all eventualities - the issue could be sold at the minimum tender price and then rise subsequently - it does provide a significant degree of protection against a rise in the price during the offer period. In the light of our experience with Amersham and Britoil, I believe it would be very damaging with an offer of this size to turn back to a fixed price offer and to get it wrong.

8. I have concluded therefore that the balance of advantage lies with the tender. I hope you agree. As with Britoil, arrangements will be made to permit



small applications at the striking price and to encourage them by offering them a degree of preference in the allocation, should it be necessary to cut down applications.

9. You will also want to know the wording of the statement on the Government's future intentions which we have to include in the prospectus. I suggest:

"The Government has no plans to sell any more of its present holding in BP in the foreseeable future and, in any event, will not do so in the next two years to September 1985."

This would not, of course, preclude another sale in the autumn of 1985.

10. I am sending a copy of this minute to Peter Walker.

Do we need 'in any event'?

Or is it there because 2

precedent?

MT

Margaret O'Hara

(N.L.)

9 September 1983

(approved by the Chancellor and signed in his absence)