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SUBJECT
cc MARRER



bc: David Pascoe

10 DOWNING STREET

From the Private Secretary

6 April 1984

Dear Michael,

Wytch Farm

Your Secretary of State came to see the Prime Minister today to explain certain difficulties which had arisen over the disposal of the Wytch Farm assets by BGC. He set out the history of the case, (which I need not repeat in this letter), pointing out that BGC had been directed to negotiate with DBG rather than to settle at a certain price. Sir Robert Armstrong added that the direction to BGC was to dispose of Wytch Farm at the best price. This was no longer represented by the DBG bid, and in consequence the direction may no longer have force. In discussion, it was noted that BGC had no legal obligation to sell to DBG; their commitment was to negotiate with it. The Government had no legal obligation either to DBG.

Your Secretary of State said there was no easy solution. If DBG were not to secure the contract, there could be accusations of bad faith on the part of the Government. The group had spent possibly £2 million on legal fees, and had foregone alternative investment opportunities. It would, however, be very difficult for the Government to defend an offer of compensation to the Group. It would also be difficult to direct BGC to accept the bid from DBG now that a higher bid had been made, as the existence of this bid would inevitably become known. Asking RTZ to withdraw was not a solution, as this would not prevent the existence of the bid being known.

Your Secretary of State thought it unlikely that a joint bid could be arranged as it would be difficult to persuade DBG to share the contract with the loser in the original bid. There were difficulties too in asking DBG to bid again as this raised the question of whether the bidding should be completely opened up. An alternative approach would be to transfer the assets from BGC and sell them as part of Enterprise Oil. This would ensure that a fair market price was secured but would still leave the problem of bad faith in relation to DBG.

The Prime Minister recognised that it was difficult to find a solution which reconciled the need to avoid accusations of bad faith on the part of the Government and the need to be seen to be obtaining the best deal for the taxpayer. She asked Sir Robert

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SECRET

SECRET

- 2 -

Armstrong to discuss the matter with Sir Kenneth Couzens and Sir Peter Middleton and to prepare a note setting out the courses of action and the difficulties associated with each. A meeting has been arranged for the Prime Minister to discuss this with the Chancellor and your Secretary of State on Monday afternoon.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

SECRET