

Lord Rothschild has
written to me today
about this. His letter
is attached.

FERB

PRIME MINISTER

cc: Mr. Redwood 27.6

ENTERPRISE OIL

A difficulty has arisen on the flotation of Enterprise Oil. At the close of applications, 66% of the shares had been applied for, a better result than had been expected. It has become apparent however that RTZ has applied, through various nominees, for 49% of the shares, so in practice only 17% has been taken by the market. RTZ have issued a statement confirming that they had made this bid and that they had no intention of acquiring any further shares in Enterprise, and that such a holding was in line with their previously stated intention to expand their interests in the oil sector. They intend to discuss the implications of their holding with the Secretary of State for Energy and the takeover panel.

There are potential embarrassments for the Government in this. As a deliberate decision, Enterprise, or the Enterprise assets, were not sold to a single company, though it might have raised more money to do so; the aim was to create an independent exploration and production company in the North Sea. RTZ's holding, if allowed to go through, casts doubt on Enterprise's independence.

There are a number of responses:

- (i) Under the Underwriting Agreement, the Government has the right to scale back applications, even where the Issue is less than fully subscribed. RTZ could be scaled back to the 10% level at which a company is required to declare an interest, or the 30% level at which a company is

normally required to make a bid for the whole company. (I believe that because this is an Offer for Sale, the 30% rule does not apply). If RTZ are scaled back to 10%, they could bid for further shares in the market. If it did so, the Government could look doubly foolish. First because its intention of creating an independent oil company was being flouted, and secondly because the price at which these shares were acquired was higher than the 185p minimum tender price. If someone else came in to contest the bid, the price could be significantly higher.

- (ii) A way could be found to require RTZ to bid for the rest. This would again conflict with the intention to create an independent company and if RTZ acquired the whole company at 185p, the Government could be accused of letting Enterprise go too cheaply.

There is also the question of the Golden Share which I believe can be used where any holding exceeds 50%.

- (iii) The Government could seek to negotiate directly with RTZ to secure a higher price for sale as a single entity. While this would mean sacrificing the Government's ambitions to create an independent company, at least it would achieve a better sale price.

Discussions have been taking place between the Department of Energy, the Treasury and Kleinwort Benson, the advisers to the Issue. The various parties have agreed to reflect on this overnight before resuming in the morning. Mr. Walker wishes to telephone you at around 1030 to put you in the picture. I suggest you listen to what he has to say,

but do not commit yourself to a view. As yet I do not know what the Chancellor thinks, though I suspect he feels Sir Alistair Frame has behaved appallingly and would like to find some way of preventing him from succeeding in his attempted coup. Another consideration is that if RTZ's bid is scaled down too much, more will be left with the underwriters, which may dampen their enthusiasm for the BT Issue.

AS

27 June 1984

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

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Dear Kelvin,

It was stupid of me to have got the Thursdays muddled.

During our telephone conversation I said there were two matters I wanted to mention to you. One is not urgent but the other may be and is as follows. We act as financial advisers to Rio Tinto Zinc who had in mind subscribing for 51% of Enterprise Oil. In the present circumstances they might have succeeded but after discussion with us, that percentage was reduced to 49, for obvious reasons.

We have also advised our client that they should discuss this matter with Peter Walker, as Secretary of State for Energy, and they either have or will shortly do so.

The Prime Minister might get a question about this matter so I attach a note about it which I hope may be of use.

*Yours
Victor*

It became evident on Tuesday that the privatisation of Enterprise Oil was going to be a flop and that this would jeopardise all future privatisation operations which the Government has in mind. In that sense, therefore, the "bid" by Rio Tinto Zinc (the name of this company is, of course, secret) for 49% of Enterprise Oil saves the Government in the medium term from a series of embarrassments. At the same time, the majority of the Enterprise Oil shares will be held by the public.

The method adopted by the Government to privatise Enterprise Oil, flotation, is not conducive in present market conditions to a successful operation and does not produce the highest price. In these circumstances some thought may be needed about future operations of this type.