FROM: N L Wicks
DATE: 5 November 1982

1. MR MIDDLETON

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Sir D Wass
Mr Burgner

PRICING OF THE BRITOIL ISSUE

The Secretary of State for Energy and the Financial Secretary had two long discussions last night with David Scholey and Lord Garmoyle of Warburgs on the Britoil pricing. There were separate meetings with our independent pricing advisers, stockbrokers Fielding Newson-Smith & Co. The purpose of the discussion was:

i) to establish, before the final negotiations next Tuesday, the price at which the issue could be underwritten for both fixed price and tender offers; and

ii) to ascertain in particular the gap, if any, between the underwritten price for a fixed price offer and a tender so that Ministers can come to a final decision this weekend on the method of sale.

2. Warburgs opened the negotiations by saying that the consensus of view of the six underwriting banks was that in that day's market conditions and on the basis of their initial view of the prospectus, the underwritten price for a fixed price offer would be 214p and the minimum price for a tender offer would be some 10 per cent lower, say 205p. David Scholey said that Warburgs had been willing to contemplate a fixed price offer at around 217p and a tender at around 212p, but he had been in a small minority in the underwriting group in arguing for this. He explained that the underwriters attached great importance to the price earnings ratio being no more than 6.0 which suggested the price of 214p. Surprisingly the brokers to the issue had been willing to contemplate the price of 215p for both fixed price and tender (though see their views on the reception to a tender in paragraph 4 below). After a lot of discussion Warburgs agreed that the underwriters might be persuaded to underwrite a fixed price offer at 215p and a tender at 210p, even if this meant dropping unco-operative underwriters from the syndicate.

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3. On the basis of this 5p gap the Secretary of State's and the Financial Secretary's firm view, for the reasons set out below, is that a tender is preferable. Fielding Newson-Smith agree. So do Treasury officials.

4. The advantage of a tender is that sale proceeds will reflect market bidding; there is less risk that the price will shoot to an immediate premium and there is the opportunity that any under-valuation of the underwritten price will be compensated by a striking price, reflecting market bidding, which is above the minimum under-written tender price. On the other hand, the striking price might have to be fixed at the minimum tender price. The brokers to the issue believe this to be a real possibility since market reception to a tender might not be good. Fieldings agree. If the striking price had to be fixed at the minimum tender price of 210p, sale proceeds would be some £12.50m lower compared to a fixed price offer at the suggested 215p. (A sale at 210p would produce gross proceeds of some £535.75m and at 215p proceeds of £548.25m. Public presentation of the proceeds could also add in the Company's £85m repayment of debt on floation.) The Secretary of State and the Financial Secretary think that the balance of the arguments point firmly towards a tender.

5. Mr Lawson will now send a minute to the Prime Minister seeking her agreement to a tender. This is the only decision which is needed at this stage. The draft will be at Northholt for your clearance. If you disagree, and we would not recommend you to do so, the draft could be quickly adapted to include your views. A decision is needed from the Prime Minister by 10:00 am Monday at the very latest, though all concerned with the issue would appreciate it very much if there could be an answer by Sunday afternoon, so that there is adequate time for proof reading etc. Thereafter pricing meetings have been arranged for Tuesday morning and early evening which the Secretary of State and Financial Secretary will attend. If the tender route is agreed, our objective at thos meeting would be to hold the underwriters to 210p and if possible to try to beat the price up, particularly if the market had strengthened in the interim.

N.L.W.

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