



RECORD OF A CONVERSATION BETWEEN THE CHANCELLOR AND THE SECRETARY  
OF STATE FOR ENERGY IN NO.11 DOWNING STREET AT 4 PM ON WEDNESDAY,  
29TH SEPTEMBER 1982

Present:-

Chancellor  
Financial Secretary  
Mr. Middleton  
Mr. Wicks  
Mr. Kerr

Secretary of State for Energy  
Mr. T.P. Jones  
Mr. A.J. Wiggins  
Mr. J. Dorken  
Mr. R. Wilson

Papers

The meeting considered the Secretary of State's letters of 23 September on the Britoil flotation, and of 24 September on the North Sea oil tax climate.

Britoil

2. Mr. Lawson said that he was clear that it would be wrong to postpone the proposed flotation. There was no reason to expect that the proceeds would be higher after a delay, for oil market prospects were not encouraging. And it would be difficult to gear up the operation a second time. Warburgs, whom he had seen earlier on 29 September, were keen to go ahead: so was he. The Chancellor and the Financial Secretary agreed, while noting that it would be possible up to the last minute to retain the option of calling the sale off if market conditions were to deteriorate very sharply. It was agreed that any indication - e.g. at the Party Conference - of doubt about whether the flotation would take place on schedule would be taken as confirmation that the Government were backing off, and should therefore be avoided.

3. On method of sale, it was agreed that the choice lay between a conventional fixed price offer, and a modified tender, along the





lines described in paragraph 70 of the report of the method of sale working party. The compromise "hybrid" option should be dropped. It was also agreed that, whichever option were chosen, underwriting would be essential. Mr. Lawson thought that the straightforward marketing arguments pointed to a fixed price offer; but the tender route would avoid the political problems of success with a fixed price offer. One would wish dealings in the shares to start at a small premium: yet a premium of only 10 per cent on a sale of this size would bring accusations that some £50 million of the taxpayers' money had been put into City pockets. On the other hand, the underwritten minimum tender price would probably be lower than the underwritten fixed price. It was agreed that both options should be kept open for the present, and that price advice on both bases should be secured. This would enable a final judgement to be taken in the light of a clear estimate of the price to be paid for avoiding the potential criticism of a fixed price success. The Financial Secretary, and the Chancellor, thought that there would be considerable attractions in a tender, provided that the underwritten tender price were not far below the obtainable underwritten fixed price.

4. In a brief discussion of the future ownership of the Government's 49 per cent shareholding, it was agreed that the Treasury should eventually hold the shares.

5. In a further brief discussion of Britoil management, it was agreed that it would be desirable that the oil expertise on the Board should be increased before the flotation. Mr. Lawson explained that steps to this end were being taken.

6. On measures to encourage a wide spread of ownership, the Chancellor agreed that the prospectus should be made widely available, and that the arrangements and timetable should be tailored to accommodate the small investor, who should be given priority in the share allocation. He was however less convinced of the value of a loyalty scrip. The Financial Secretary pointed out that Warburgs apparently estimated that the loyalty scrip





might cost some £20 million: it could be seen as an odd use of so much public money. Mr. Lawson thought that the figure was as yet uncertain: the cost would depend on how large was the inducement to hold the shares for a minimum of two years. And the cost would not of course arise until after that period. Moreover the £20 million figure took no account of the fact that a loyalty scrip might make it possible to agree a higher price with the underwriters. It was agreed that no final decision on the loyalty scrip need yet be taken. Independent advice on it, as on all other issues relating to the flotation, should be sought from Fielding, Newsome Smith.

#### North Sea fiscal regime

7. The Chancellor said that he fully accepted the case, set out in Mr. Lawson's letter, for a new study of the fiscal regime. There was no question of making it tighter: what was at issue was whether it should be relaxed by action in the Budget. A key issue would be whether there could be any assurance that substantial reductions in tax take would lead to more investment in the North Sea, rather than elsewhere.

8. Mr. Lawson was clear that there had been a sea-change in the oil market, and that there was a serious risk that the flow of investment in the North Sea would dry up unless the regime were relaxed. The aim should be to make sufficient changes to affect the companies' psychological approach to new investment decisions: changes which would affect revenue in 1983/84 would not necessarily be essential.

9. Mr. Lawson went on to say that he would see considerable advantage in completing the proposed review in time to announce its outcome before the Britoil flotation. The Chancellor and Mr. Middleton however thought it important to consider all the Budget fiscal issues in the round, and saw risk in a  rushed two-week study. Announcing the outcome would also pose a major





presentational problem, given what had been said to the Select Committee as recently as July. The objective situation had not changed in the interim, and it would be assumed, particularly if tax changes would not affect the revenue until 1984/5, that the Government's haste was entirely related to the Britoil sale. The UKOA report would be available by the end of the year, and should be taken into account in the review.

10. Mr. Lawson said that, while he would have seen considerable advantage in a very rapid review, and early announcements, his first priority was to secure a joint study leading to some mitigation of the North Sea fiscal regime. It should not be too mechanistic, and should take full account of psychological factors. The Chancellor agreed: the study should be set up forthwith, but it was agreed that it should be on an in-depth basis, and against a Budget, not an October, deadline.

A handwritten signature in dark ink, appearing to be 'J.O. Kerr'.

J.O. KERR

30 September 1982

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 Distribution:-

PS/Secretary of State for Energy

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State (R)  
 Sir Douglas Wass  
 Mr. Middleton  
 Mr. Quinlan  
 Mr. Burgner  
 Mr. Monck  
 Mr. Moore  
 Mr. Ridley  
 Mr. Wicks

Mr. Green (Inland Revenue)

Mr. Plenderleith (Bank of England)



CONFIDENTIAL



Prime Minister (2)  
This was the meeting which I suggested you should take (it happened more quickly than I had expected). You will

Treasury Chambers, Parliament Street, SW1P 3AG  
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see that Mr Lawson

30 September 1982 has abandoned the

idea of a quick review of the oil tax régime, but the Chancellor

has agreed to a review, to be concluded by Budget time.

MCS 1/10

Michael Scholar, Esq.,  
No.10, Downing Street

MS

Dear Michael,

..... The Chancellor has asked me to send you the attached note of a meeting he held on 29 September with the Secretary of State for Energy on the proposed Britoil flotation, and on the North Sea fiscal regime.

The Chancellor, and the Secretary of State for Energy, are concerned that the Prime Minister should know how matters now stand on the flotation; that they agree that preparations for it should continue as planned; and that the Secretary of State will make it plain, in his speech at Brighton, that the Government's intention is to go ahead with the sale this autumn (paragraph 2 of the record).

The Prime Minister may also wish to note that the Chancellor has accepted the case - the Secretary of State's letter of 24 September - for a new review of the North Sea fiscal regime.

A copy of this letter goes to Julian West in the Department of Energy.

Yours ever,

J.O. Kerr

J.O. KERR