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MR. SCHOLAR

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BRITTOIL: LOYALTY SCRIP

Today I discussed with the Secretary of State for Energy the various points that I raised in my memorandum to you, and which you included in your letter to the Private Secretary of Energy.

On the first point of substance, the Secretary of State agreed that the loyalty scrip would be demand-led and that it would be difficult to make forecasts of the amount that was taken up. However, he proposed to introduce into the prospectus a statement that the seller reserved the right to restrict the allotment of the loyalty scrip. He was thinking in terms of only about one-fifth of the total issue being allotted to individuals under loyalty scrip arrangements.

In order to offset the argument that the holders of the loyalty scrip might sell after two years, the Secretary of State was proposing to increase the period to three years. This, he argued, would be more likely to induce people to hold on to the stock after the three-year period had elapsed. So far as I can see, as I mentioned to the Secretary of State, only the lethargic will continue to hold the scrip. Most will sell. But no-one can be sure at this stage what will happen on that occasion.

In essence, the Secretary of State said that he knew that the loyalty scrip didn't make very much economic sense, but it had political advantages that outweighed the small economic disadvantages. I agree that the economic costs should be quite small, and may well be more than offset by the political advantages.

The critical issue of tender or fixed price as the basis of the issue, and the details of the offer, have still yet to be decided. The Secretary of State clearly would prefer a tender, but I gather there are some difficulties with the under-writer, even at this late stage. Unlike other capital markets of the world, the City has been protected by the Bank from any substantial tender issues. They are not used to them. And for this reason, the under-writing costs of a tender may be significantly larger than those for a fixed price. There is a lot of hard bargaining yet to be done. But even if the under-writing price differed by as much as 10%, I still think that the advantages of a tender offer are sufficient to offset this. And

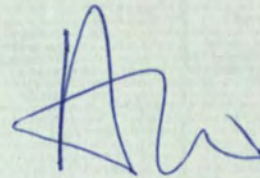
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in principle the difference in under-writing could be offset by the suitable choice of a minimum choice for the tender. All this is, I believe, still under discussion.

2 November 1982



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