

PREM19

31

ECONOMIC POLICY

(Privatization)

(Part 1)

PART 2 begins:-

Hansard extract 23. 7. 879

PART 1 ends:-

Hansard extract 20. 7. 79



10 DOWNING STREET

Papers on the future
of BNOC and sale of
BP assets subsequent
to E(DL) (79) 5 2/7/79
on a new file

Energy: July 1979:
The future of BNOC: Proposed
Sale of BP shares.

For papers on: Disposal of British
Shipbuilders, see Nationalized Industries,
July 79,
Shipbuilding Policy

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
ED(L)(79) 2	04/06/79
E(DL)(79) 1 st Meeting, Minutes	05/06/79
E(DL)(79) 3	18/06/79
E(DL)(79) 2 nd Meeting, Minutes	20/06/79
E(DL)(79) 4	29/06/79
E(DL)(79) 5	02/07/79
E(DL)(79) 3 rd Meeting, Minutes and Annex	05/07/79
E(DL)(79) 8	13/07/79
E(DL)(79) 10	16/07/79
E(DL)(79) 9	17/07/79
E(DL)(79) 12	17/07/79
E(DL)(79) 4 th Meeting, Minutes 3 & 4	19/07/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 27 October 2009

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 20 July 1979, columns 2183-2198
"British Airways (Financing)"

Signed Wayland Date 27 October 2009

PREM Records Team

1A

DRAFT STATEMENT ON THE FUTURE OF BRITISH AEROSPACE AND BRITISH SHIPBUILDERS

Two points on your query below:

- (i) The Manifesto said - "we will offer to sell back to private ownership the recently nationalised Aerospace and Shipbuilding concerns".
- (ii) Aerospace and Shipbuilding are closely linked in the public's mind because they were nationalised together.

Hence, it is almost certain that, if shipbuilding is not mentioned, a Question will be put about it. Sir Keith therefore thinks it is better to come clean in the statement itself.

Sir Keith intends to add a sentence saying that, if shares in British Aerospace do not attract buyers, the Government will consider selling off the profitable Dynamics subsidiary. This option was, I understand, considered in Opposition, though as a second best solution; provision needs to be made for it in the legislation in case the Government decides to go down that route. It is better to announce it now as a possibility, rather than to be driven to it at a later stage.

Are you content?

Sorry to come back to the point

but ① Shipbuilding - the drafting of the White Paper really does expose S & S to a noisy few moments just as he sits down. Can we not say: "Because of the problems affecting the shipbuilding industry and the difficulty of predicting its future size, no action can be taken at the moment to return it to the private sector".

[Is this accurate? I should have

20 July 1979

thought that parts of it could still
be sold off?)

(2) Is it advisable just as we are
pulling shares on to the market to cast
doubt on whether they will sell? The inclusion
of such a sentence would go a long way
to harm the chances of success.

prob

PA MS
PRIME MINISTER

tw. A. 2

MR. NOTT'S STATEMENT ON BRITISH AIRWAYS

Mr. Nott's statement took the House by surprise. It was greeted with, as was to be expected, some vigorous complaints about its being made on a Friday and with vigorous opposition from Labour speakers. Mr. John Smith said that there was no mandate for this proposal which had not been in the Manifesto. There had been no consultation with the trade unions or the workers in advance of the announcement. Mr. Nott said that the principal purpose of the proposal was to give British Airways employees an opportunity to share in its future. He said that it was unfair to complain when he brought his proposals to the House first, and that he was prepared to enter into full consultations with the trade union representatives. He said that he saw no reason for a BP arrangement, but that the details of the balance between Government and other directors was a matter yet to be settled.

He emphasised that he wanted to make British Airways no longer subject to the vagaries of public expenditure constraints and to make them more secure for the future.

The statement was generally welcomed from the Government's side, and Mr. Nott did effective work in dealing with his critics. He mentioned the fact that £1 billion of public expenditure would come out of the Government's balance sheet and emphasised the importance of the proposals for Rolls Royce.

Mr. Clinton Davis said that the reason for the unseemly haste in making the announcement was that Mr. Nott wanted to have something to take to the Party Conference, and that the Board of Directors ought to have trade union membership. Mr. Nott said that Mr. Clinton Davis had had plenty of opportunity to bring that about while he had been Aviation Minister.

There is no doubt that the Opposition will press their objections to the proposal, but Mr. Nott's performance was an impressive one today.

20 July 1979

MS



From the Secretary of State

Mrs P C Diggle
Private Secretary to
the Financial Secretary
HM Treasury
Treasury Chambers
Whitehall
London, SW1

20 July 1979

Dear Panda,

BRITISH AIRWAYS

The Secretary of State spoke to the Financial Secretary on the telephone last night about today's statement on British Airways' financing. As a result of their conversation, a number of amendments were made to the statement circulated under cover of my letter of 19 July. I enclose a copy of the final version of the statement which my Secretary of State will make later this morning.

I am circulating this letter and attachments to the recipients of yesterday's letter.

Yours Sincerely,

Tom Harris

(T G Harris)
Private Secretary

PLEASE CHECK AGAINST DELIVERY

STATEMENT BY MR JOHN NOTT, SECRETARY OF STATE FOR TRADE, IN THE HOUSE OF COMMONS ON 20 JULY 1979.

FINANCING OF BRITISH AIRWAYS

With permission, Mr Speaker, I will make a statement on the financing of British Airways.

British Airways has embarked on a major programme of fleet replacement and expansion and I believe that it has excellent growth prospects. As our principal national carrier, it is operating in an increasingly competitive market and, while the world energy situation creates considerable uncertainties, I am nonetheless confident that the airline will face these challenges successfully.

Clearly there must be some flexibility about the rate of expansion in the face of these uncertainties. Nevertheless, the present appraisal is that British Airways will require a substantial increase in capital investment from both internal and external sources over the next few years in order to meet its objectives. For this reason I have been looking at its capital structure and financial requirements, and I should like to let the House have my views and proposals.

First, the Government are concerned to give British Airways the most effective form of organisation for carrying out its programme in response to the changing demands of the market rather than on the basis of Government targets and support.

Second, I propose therefore that the framework of the Companies Acts should be used to provide British Airways with a new capital structure and that a substantial minority shareholding in the enterprise should be offered for sale to the public.

Third, the Government will give up control, for example, over British Airways' investment programme and it will in future satisfy its financial

requirements from capital markets both at home and overseas.

Fourth, my proposal does not involve a separate disposal of any part of British Airways.

Fifth, special arrangements will be made to enable employees of British Airways to take up shares in the enterprise should they wish to participate in its future and share in its growth.

Sixth, I envisage the fullest possible process of consultation with the airline's management and employees.

Seventh, I will put forward proposals later in the year for the legislation which will be required. The timing of any issue of shares will depend on market and other circumstances.

Eighth, I will also set out the Government's thinking on the licensing provisions administered by the Civil Aviation Authority. I can say now, however, that there will be no arbitrary reallocation of routes.

19 JUL 1979



00
I spoke to R.H. in the lobby - he says he is going ahead.

Prin. Minister 'A'
would you like to speak to the Heseltine about this? Perhaps Lord Bellon could take this on.

CONFIDENTIAL

I had better remember this officially as a result of this memo.

Qa 04196

To: MR LANKESTER
From: SIR KENNETH BERRILL

R
20/7

Sale of New Town Assets

1. At yesterday afternoon's seminar on Monetary problems, the Prime Minister got on to the question of the sale of New Town assets as one way of reducing the need to sell energy assets. She said that she would chase the matter herself but suggested that I, too, might have a look at it. I have done some rapid ferreting this morning and the results may be of interest as background for the Prime Minister's own enquiries.
2. The assets under discussion are the commercial and industrial properties owned by the various 'New Towns'. We are not talking about their residential property. That is already being sold off reasonably rapidly to sitting tenants, but the point is that such sales do very little to help the PSBR because the Government has to lend the tenant the mortgage to finance the sale.
3. The amount of commercial and industrial property which could, in principle, be sold was first estimated at £2 bn. This was a rapid initial estimate, undertaken not by the Department but by an outside consultant and he had insufficient data to work upon. The true figure is much nearer £1 bn.
4. The New Towns are, of course, major borrowers from the National Loans Fund (NLF). For some time they have been financing part of their requirements for new development by selling off some of their existing commercial and industrial property to the sitting tenants. Mr Heseltine's estimate of providing some £70m. of relief to the PSBR without legislation is his guess as to the extent to which he could 'twist the arms' of the

CONFIDENTIAL

Chairmen of New Town Corporations to speed up this process and hence reduce their borrowings from the NLF. His ability to do this is confined to New Towns which are still in the process of expansion. 'Old' New Towns which have virtually completed their programmes are much better able to resist such pressures.

5. To go beyond the £70m. would require legislation so that the Government could go beyond 'arm twisting' and deal with both 'new' New Towns and 'old' New Towns. But the bottleneck then becomes a different one: the speed at which one can negotiate with the sitting tenants. The Leases are inevitably complex and varied. Some of the sitting tenants were given very generous Leases to attract them in to the town so that the organic development of the town could be achieved. Some of the sitting tenants would not wish to purchase the freehold and external buyers would need to be looked for, and the complications of selling a property where the Lease had these 'social considerations' built in to it are obvious. It is anybody's guess how much more than £70m. could be shifted over the next nine months but, say, £200m. might be a reasonable 'off-the-cuff' figure.

6. An alternative to dealing with it property-by-property would be to try to sell enormous blocks, not to the sitting tenants, but to some outside consortium of pension funds or insurance companies. The snags here are that some of the Leases do give the sitting tenant the right of first refusal; that it would be impossible to have any 'small man' element in such an approach (except to the extent to which the 'small man' has his savings in pension funds); and that the price obtained by such a block approach might well not be as good as attempting individual sales and negotiating on the particular circumstances of each case.

7. Lastly, my information is that Mr Heseltine has himself been putting a great deal of steam behind all this and is doing his best to go faster and further than many of his officials would prefer.

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8. I should emphasise that the above is the result of a very rapid enquiry. It is almost certainly not accurate in every detail but I thought the Prime Minister might prefer to have something rough but immediate as background for her own approaches.

9. I am sending a copy of this minute to Sir John Hunt.

KB

19 July 1979

119 JUL 1979



Y SWYDDFA GYMREIG
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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-2336106 (Direct Line)

From The Secretary of State for Wales

1-233

The Rt Hon Nicholas Edwards MP

De Nigel

19 July 1979

I have read with interest your letter of 16 July to Peter Walker.

You seem to be suggesting a quite fundamental change in the role of the Forestry Commission, and possibly in our approach to forestry policy in the periphery of the Disposals Exercise. I am reluctant to take any view on these issues without having before me a full examination of their implications, and proper time for consideration. I would not object to our deciding to consider with the Commission whether there is scope for disposal of rather more of the land which they hold, without commitment to the scale of disposal or of changes in basic policy.

/ Copies go to the recipients of your letter.

John

Nigel

Nigel Lawson Esq MP
Financial Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

RECEIVED
JUL 12 1979

JUL 19 1979



PA

From the Secretary of State

CONFIDENTIAL

Tim Lankester Esq
10 Downing Street
London, SW1

19 July 1979

Dear Tim,

FINANCING OF BRITISH AIRWAYS

Following the approval given at tonight's meeting of E(DL), I enclose a copy of the oral statement on the financing of British Airways which my Secretary of State will make tomorrow, 20 July. Arrangements have been made for a press conference to be held at 11.30 in the Large Ministerial Conference Room in the House of Commons.

I am sending copies of this letter and attachment to Private Secretaries to members of E Committee, of the Chancellor of the Duchy of Lancaster, the Paymaster-General, the Chief Whip and Sir John Hunt.

Yours Sincerely,

Tom Harris

(T G Harris)
Private Secretary

CONFIDENTIAL



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19 JUL 1979

PA
PRIME MINISTERMr Nott and Mr Lawson
have agreed the amendments
I have pencilled in below.

Are you content too?

MS
17/7

STATEMENT

FINANCING OF BRITISH AIRWAYS

British Airways has embarked on a major programme of fleet replacement and expansion and I believe that it has excellent growth prospects. As our principal national carrier, it is operating in an increasingly competitive market and, while the world energy situation creates considerable uncertainties, I am nonetheless confident that the airline will face these challenges successfully.

Clearly there must be some flexibility about the rate of expansion in the face of these uncertainties. Nevertheless, the present appraisal is that British Airways will require a substantial increase in capital investment from both internal and external sources over the next few years in order to meet its objectives. For this reason I have been looking at its capital structure and financial requirements, and I should like to let the House have my views and proposals ~~on~~

~~deleted~~ the financing of this programme.

First, the Government are concerned to give British Airways the most effective form of organisation for carrying out its programme in response to the changing demands of the market rather than on the basis of Exchequer targets.

~~deleted~~ Second, it should have fullest possible access to capital markets both at home and overseas for its future investment needs.

~~Second,~~

Third, I propose therefore that the framework of the Companies Acts should be used to provide British Airways with a new capital structure and that a substantial minority shareholding in the enterprise should be offered for sale to the public. ~~The effects of this would be that British Airways would cease to be a statutory corporation, the receipts from the share issue would bring immediate relief to the public sector borrowing requirement, and the airline's subsequent borrowing, amounting to roughly \$1 billion over the next 5 years, would fall wholly outside the PSBR.~~

Third the Govt will give up control, for example, of the BA investment programme and it will in future satisfy its financial requirements from capital markets both at home and overseas.



Fourth, my proposal does not involve a separate disposal of any part of British Airways.

Fifth, special arrangements will be made to enable employees of British Airways to take up shares in the enterprise should they wish to participate in its future and share in its growth.

Sixth, I envisage the fullest possible process of consultation with the airline's management and employees.

Seventh, I will put forward proposals later in the year for the legislation which will be required. The timing of any issue of shares will depend on market and other circumstances.

Eighth, I will also set out the Government's thinking on the licensing provisions administered by the Civil Aviation Authority. I can say now, however, that there will be no arbitrary reallocation of routes.



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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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PS/ Secretary of State for Industry

Martin Hall Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall
London SW1

PRIME MINISTER

Contact for this statement
to go ahead - and with the
19 July 1979
draft?
MS

Dear Martin

SALE OF BRITISH AEROSPACE AND WARSHIP BUILDERS TO THE PRIVATE SECTOR

Following today's E(DL) policy approval for my Secretary of State's proposals on the sale of British Aerospace and British Shipbuilders to the private sector, my Secretary of State has asked me to circulate the text of the statement which, after consultation with the office of the Chancellor of the Duchy of Lancaster, we propose should be made on Monday 23 July. This is the day on which we are due to take first order PQs and also to make the statement on Government policy towards shipbuilding. In view of this, my Secretary of State would like the Minister of State, Adam Butler, to make the statement on Shipbuilding. We are assuming that protocol demands that the Secretary of State's statement is made before that by Mr Butler.

I should be grateful if any comments which other Departments have on the text of the proposed statement could be with us by 6.00 tomorrow night.

Copies of this letter go to Tim Lankester (No.10), Private Secretaries to all Members of E(DL) and E(EA), John Gutteridge (MoD), Charlotte Edgerton (CDL), Murdo MacLean (Chief Whip's Office) and Martin Vile (Cabinet Office).

Yours ever
Peter

PETER MASON
Private Secretary

Would it not be better to leave out all reference to shipbuilding as we are not going to make any action?

CONFIDENTIAL



DRAFT STATEMENT ON THE FUTURE OF BRITISH AEROSPACE AND BRITISH SHIPBUILDERS

This Government's election manifesto included a commitment to offer to sell back to private ownership the recently nationalised aerospace (and (shipbuilding) industries, giving the employees the opportunity to purchase shares. We believe that private ownership supports freedom, jobs and prosperity better than Government ownership.

Since taking office, we have carefully considered the circumstances of the aerospace industry in the light of the manifesto commitment. I have consulted the Board of British Aerospace and the trade unions representing those employed in the industry and listened to other opinions. It remains our view that a substantial measure of private ownership will further strengthen the industry's contribution to the national economy and our national defence.

We propose that the ownership of the industry be transferred from the present statutory corporation to a company incorporated under the Companies Acts. Initially the shares in that company would be held by the Government, which would then make shares available to private ownership. Employees would have a special opportunity to buy shares. The Government intend to retain a shareholding of about half, but would expect not to intervene in the administration of the company as a commercial concern.

The change to company status will not result in any alteration to the present business: its assets, liabilities and contracts will

/all be....



all be transferred to the new company. I would also hope to secure continuity in management at board level.

We favour the maintenance of the present activities of British Aerospace within a single structure and I believe that this will be in the best interests of the industry.

Legislation will be introduced before Christmas to permit these policies to be carried out.

The arguments in regard to the benefits of private ownership apply equally to the shipbuilding industry. In principle, therefore, I should like to introduce private sector finance to this industry as well. But it is necessary to recognise the problems affecting the shipbuilding industry. In the light of these circumstances and the difficulty of predicting the future size of the industry, the Government has decided to take no action at the moment on returning shipbuilding companies to private sector.



CONFIDENTIAL

~~TIM~~ Top copy with the PM (last)
- it wd be an enormous relief to Industry to

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

clear it before
close of play
tonight!
MS

PS/ Secretary of State for Industry

Martin Hall Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall
London SW1

19 July 1979

Dear Martin

SALE OF BRITISH AEROSPACE AND WARSHIP BUILDERS TO THE PRIVATE SECTOR

Following today's E(DL) policy approval for my Secretary of State's proposals on the sale of British Aerospace and British Shipbuilders to the private sector, my Secretary of State has asked me to circulate the text of the statement which, after consultation with the office of the Chancellor of the Duchy of Lancaster, we propose should be made on Monday 23 July. This is the day on which we are due to take first order PQs and also to make the statement on Government policy towards shipbuilding. In view of this, my Secretary of State would like the Minister of State, Adam Butler, to make the statement on Shipbuilding. We are assuming that protocol demands that the Secretary of State's statement is made before that by Mr Butler.

I should be grateful if any comments which other Departments have on the text of the proposed statement could be with us by 6.00 tomorrow night.

Copies of this letter go to Tim Lankester (No.10), Private Secretaries to all Members of E(DL) and E(EA), John Gutteridge (MoD), Charlotte Edgerton (CDL), Murdo MacLean (Chief Whip's Office) and Martin Vile (Cabinet Office).

Yours ever

PETER MASON
Private Secretary



DRAFT STATEMENT ON THE FUTURE OF BRITISH AEROSPACE AND BRITISH SHIPBUILDERS

This Government's election manifesto included a commitment to offer to sell back to private ownership the recently nationalised aerospace and shipbuilding industries, giving the employees the opportunity to purchase shares. We believe that private ownership supports freedom, jobs and prosperity better than Government ownership.

Since taking office, we have carefully considered the circumstances of the aerospace industry in the light of the manifesto commitment. I have consulted the Board of British Aerospace and the trade unions representing those employed in the industry and listened to other opinions. It remains our view that a substantial measure of private ownership will further strengthen the industry's contribution to the national economy and our national defence.

We propose that the ownership of the industry be transferred from the present statutory corporation to a company incorporated under the Companies Acts. Initially the shares in that company would be held by the Government, which would then make shares available to private ownership. Employees would have a special opportunity to buy shares. The Government intend to retain a shareholding of about half, but would expect not to intervene in the administration of the company as a commercial concern.

The change to company status will not result in any alteration to the present business: its assets, liabilities and contracts will

/all be....



all be transferred to the new company. I would also hope to secure continuity in management at board level.

We favour the maintenance of the present activities of British Aerospace within a single structure and I believe that this will be in the best interests of the industry.

Legislation will be introduced before Christmas to permit these policies to be carried out.

The arguments in regard to the benefits of private ownership apply equally to the shipbuilding industry. In principle, therefore, I should like to introduce private sector finance to this industry as well. But it is necessary to recognise the problems affecting the shipbuilding industry. In the light of these circumstances and the difficulty of predicting the future size of the industry, the Government has decided to take no action at the moment on returning shipbuilding companies to private sector.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

18 July 1979

R 1417

FORESTRY LAND

You asked for preliminary views on the proposals for ~~selling~~ ^{request} Forestry Commission land contained in your letter of 16 July to Peter Walker.

Your letter raises a number of important points but I do not think we should ignore the fact that the Commission already has an active sales policy of selling off "surplus" land which brings an annual income in excess of £1 million. I am quite happy that your proposal be considered carefully but I suspect that closer examination will suggest that it will not be as easy to realise the sums mentioned in your letter as you suggest.

First, much of the land in Scotland is in remote areas, is tenanted or of comparatively poor quality. It may not prove attractive to the private sector. Second, I doubt whether the private sector could readily absorb land at the rate implied by the annual receipts figure quoted in your letter. Third, insofar as the sale of land acquired for forestry is concerned, an amendment to the Forestry Act would be required and this would not be a popular Bill.

I must add that I attach considerable importance to the social role performed by the Forestry Commission in, for example, providing employment in the Highlands. I would be less than enthusiastic about too great or too fast a shift from public to private sector forestry if this meant a dramatic reduction in employment in the remoter parts of Scotland. At first sight therefore I am inclined to prefer the suggestion made to the Chief Secretary by Peter Walker that the Forestry Commission might operate a revolving fund by selling off afforested land at some stage before maturity. This clearly needs more study and also involves legislation. On your last point, I understand that, the Forestry Commission are not likely to break even until the end of the century and this is dependent largely on physical constraints such as tree species, growth rates and location - assuming that cost/price

relativities remain fairly steady. Accordingly, the date depends more on what we decide now on general policy than on any steps the Commission take within that policy.

My main concern in all this is that we should not lightly pre-empt our consideration of longer term Forestry Policy by seeking a particular target of sales. The Forestry Ministers are awaiting policy proposals from the Forestry Commission and I suggest that it would be desirable to look at your proposals in that context.

I am copying this letter to the recipients of yours.

GEORGE YOUNGER

19 JUL 1979

6 11 21
9 12 1
7 6 4
2 3 5



Treasury Chambers, Parliament Street, SW1P 3AG

18 July 1979

The Rt Hon John Nott MP
 Secretary of State for Trade
 Department of Trade
 1 Victoria Street
 LONDON
 SW1

12,177

FINANCING OF BRITISH AIRWAYS

In your letter of 13 July to the Chancellor, you sought your colleagues' agreement to the text of a statement about the future financing of British Airways, to be made if possible on Wednesday 18 July. I am writing quickly to say that I do see some difficulties of principle with the text of the statement as now drafted, which I think we should probably try to resolve at E(DL) on Thursday 19 July. The points which concern me are summarised in paragraph 11 of my paper about Disposals in 1980-81 (E(DL)(79)9), which will be on the agenda at that meeting.

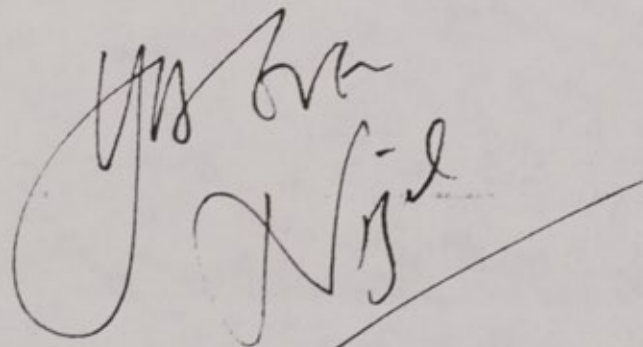
Essentially the point at issue concerns whether or not the Government's future relationship with British Airways will be such as to warrant the airline's being regarded as part of the private sector. In this and the other cases where we are contemplating the "BP solution", we have to make up our minds whether the Government is standing back— from continued effective support and control or not. If we are willing to give up all control over British Airways (and incidentally to refrain from appointing a majority of the directors), and if we make the airline entirely dependent for its financing on the domestic and international capital markets (and advance no further funds from the NLF), then we shall have substituted the disciplines of the markets for the regime of financial targets and cash limits which characterises the non-privatised nationalised industries, and we can regard British Airways as part of the private sector. But if we continue to give British Airways the sort of support you are contemplating at the beginning of your

statement, the airline will remain in the public sector and there will be no question of any reduction in the PSBR.

In the light of this, I think it would be helpful if your statement, after mentioning the airline's re-equipment, were to begin by saying that it would be sensible for us to decide now whether it would be better for the airline to continue to be a nationalised industry in the same way as in recent years, or whether it would be able to operate more effectively if it were in the private sector and subject to the disciplines of the financial markets rather than to Government - determined financial targets. It could then go on to say, ^{that} since the airline does not enjoy a monopoly and is competing effectively in an international market, we think it more appropriate that it should become like a private sector company. In accordance with this we would be introducing legislation to turn British Airways from a statutory corporation into a limited company, which would in future raise the finance it needs on its own account from the financial markets. It follows from this that the receipts from the sale of a substantial proportion of the shares in the newly reconstituted enterprise would go to reduce the PSBR, and that the airline's future borrowing would fall outside the PSBR.

Since you are proposing a very substantial sale of the total business the Chancellor and I are entirely content for you to give assurances that your proposal does not involve a separate disposal of any part of British Airways, although we might not be able to take this view in other cases where this condition is not satisfied. But I think it very important that you should not say anything which could be construed as committing the Government to standing behind the airline in the same sort of way as they have hitherto stood behind nationalised industries, once your proposed new legislation has been enacted and implemented.

I am sending copies of this letter to the recipients of yours.

A large, stylized handwritten signature in black ink, appearing to read 'Nigel Lawson', is written over a diagonal line that extends from the bottom right towards the center of the page.

NIGEL LAWSON

18 JUL 1979



2 PPs

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

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Secretary of State for Industry

18 July 1979

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

R
18/7

Davidson

FINANCING OF BRITISH AIRWAYS

I have seen your letter of 13 July to Geoffrey Howe, to which you attached a draft statement on the financing of British Airways. As you know, a comparable statement on British Aerospace will be made next week, and there is a possibility of the two being closely compared. While I in general see no difficulty about your statement, there are two points where I should be grateful if some change might be made.

The first arises from your reference to employee shares, which is couched in terms of your preference for offering shares on favourable terms. I wonder whether you would consider a slight redrafting, to reflect both the Government's determination to see some special arrangements for employees, without suggesting however that these will necessarily be at a preferred price, which may not be easy to arrange. I have in mind something on the lines of "Special arrangements will be made to allow employees of British Airways to take up shares in the new company so that they can participate in its future and share in its growth." If you are content with this formulation, I should use a similar phrase in my own statement on British Aerospace.

The second point arises in relation to your description of consultations. As you know from my letter of 5 July, I am consulting directly with the trade unions involved in British Aerospace on our policy. I do not believe that this, a matter of Government policy, is principally a subject for consultation for the British Aerospace Board; nor that consultation on this cuts across the proper relations between Board and trade unions on those questions which are for the Corporation. I should therefore be unhappy if your statement were to say, as the present draft does, that your directly analogous consultations are principally a matter for the British Airways Board. I should very much prefer, therefore, for your sixth point to read simply: "Sixth, I envisage the fullest possible process of consultation with the airline's management and employees. I will be glad to meet representatives of the trade unions concerned."

I am copying this to those who received copies of your letter.

Ern. Keir

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18 JUL 1979

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25

cc Energy: Future of BNOc
July 79

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

16 July 1979

INDUSTRY BILL

In the light of the agreement of E (EA) on 11 July to your proposals on the future role of the NEB, preparations will be going forward for the drafting of the Industry Bill. This will provide, among other things, new powers to dispose of NEB assets. As I understand it, the intention is to introduce the Bill directly after the Recess so that it could receive royal assent by January at the latest. Obviously we do not want to jeopardise this timetable, but the Bill would provide an opportunity to seek powers to provide for certain other disposals on which we are relying to keep the PSBR in 1979-80 to £8 $\frac{1}{4}$ billion. Some of these possibilities have already been mentioned at E(DL) or in correspondence. But I think it would be useful to bring them all together so that we can clarify, in the context of the forthcoming E(DL) discussions, just what would be practicable and what our priorities should be.

E(DL) Committee have not yet reached final views on the disposal of BNOc and BGC assets, but subject to the Committee's decisions, I think that there is a good case for including in the Industry Bill provisions to give the Secretary of State power to dispose of BGC and BNOc oil field assets in any way he might think fit. Such powers would be useful for disposals next year even if not required this. I recognise that these powers could be included in the forthcoming Bill amending the Petroleum and Submarine Pipelines Act 1975, but this Bill could well not be enacted in time for disposal to be made this financial year.

It was also suggested at the last meeting of E(DL) Committee that we should investigate further the sale of 49 per cent of the Government's holding in The Radio Chemical Centre (TRC). I am sure that the TRC is a good candidate for disposal this financial year, but I see no reason why the Government should seek to retain any holding at all in the Company. However, I understand the sale of all the shares would require legislation and I therefore suggest that, subject to David Howell's views, the relevant provision, which would be very short, should be included in the forthcoming Industry Bill. Meanwhile preparations should be made for the sale of TRC so that the

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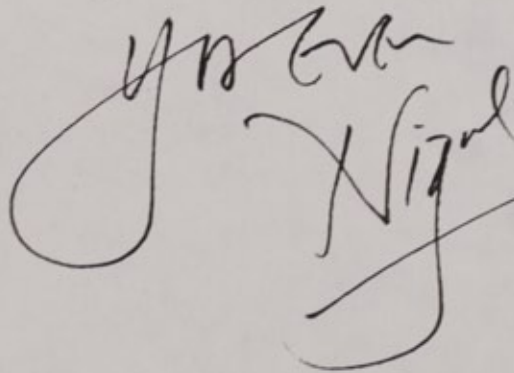
proceeds could be received in time to be counted towards the £1bn total announced in the Budget.

As I said earlier, we clearly do not want to overload the Bill so as to jeopardise its timetable, but you might also like to consider, in the light of the Attorney's advice in his letter of 10 July, whether it should not also include a provision to make certain the powers to dispose of British Steel Corporation assets, and possibly also provide for the sale of Cable and Wireless. In the BSC case I understand that we need to be sure, at the least, that the Corporation can realise the specific assets scheduled for disposal during the current year without there being any need for the Board to confirm that the disposals are in the interests of the business.

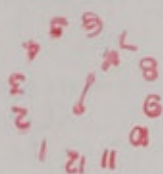
The background to the present discussions of public expenditure in 1980-81 includes the assumption that we shall secure further receipts from asset disposals that will reduce public expenditure by £500 million in that year. The various possibilities are discussed in the paper I shall shortly be putting to E(DL). As well as selling shares in certain industries, we may have to look to nationalised industries to raise substantial amounts by disposing of further landholdings and possibly by selling self-contained operational units not integral to the main business. Since we may not be able to rely on the industries to cooperate voluntarily in making these further sales, we should perhaps consider also adding powers for the Government to enforce them to the various relevant programme Bills which will be going through Parliament during the current session. In the case of BSC, the Industry Bill might again be the vehicle; or alternatively the necessary provisions might be included in the Bill to denationalise shipbuilding and aerospace activities. In the case of British Rail, and perhaps also certain other surface transport nationalised industries, the forthcoming Transport Bill would provide the opportunity to secure the necessary powers (although, of course, I recognise that sales of business units are not Norman Fowler's preferred way of attracting private capital into this area, and that he would want if possible to avoid using such powers).

I should be glad to have urgent views on all this from you and your other colleagues concerned.

I am sending a copy of this letter to the Prime Minister, the Lord President, Members of E(DL) Committee, the Minister of Transport, the Attorney General and Sir John Hunt.

A large, stylized handwritten signature in black ink, appearing to read 'Nigel Lawson'. The signature is written over a horizontal line and extends across the width of the page.

NIGEL LAWSON



JUL 6 1979



Treasury Chambers, Parliament Street, SW1P 3AG /

16 July 1979

The Rt Hon Peter Walker MBE MP
 Minister of Agriculture
 Ministry of Agriculture
 Whitehall Place
 Whitehall
 LONDON

17/7

Peter Walker

MARKET TOWERS

I have seen the Attorney General's letter of 10 July to you about the intended sale of Market Towers. In his letter he quotes my comment about the Towers not being necessary to the functioning of the Market. Since this point is clearly of crucial importance it may be helpful if I now expand on my views.

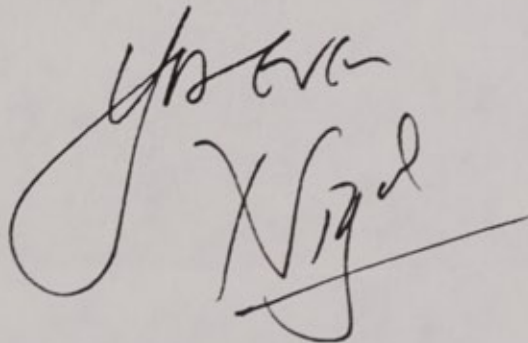
As you know the Authority have previously used a variety of arguments in favour of their retaining ownership of Market Towers. One of these arguments, that Market Towers is a valuable public asset which should not be handed over to the private sector, is not one which I would expect them to press upon this Government. Their two other main arguments have been firstly that retention of the rental income from the Towers provides them with a valuable cushion and secondly that disposal of the Towers would be a particularly inconvenient distraction to their management at the present time. Both these arguments are weak in my view; the former can be attacked on the basis that they should so order their finances that no such cushion is needed and the latter can be used in favour of the argument which we have deployed that retention of the Tower is a potentially harmful distraction from the Authority's primary responsibility - the management of the Market itself.

Ever since the Towers was completed and it became evident that it would never fulfil its original purpose - to house market traders - the Treasury view has been that the Towers should be sold. We have taken the view that, given that only 3 floors of the building are occupied by market-related traders, it is a misuse of the original loans to allow the Authority to retain possession. It is most definitely not in our view a proper function of the Authority to engage in the property management business. Also, notwithstanding the Authority's

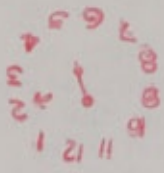
assurances about its determination to account separately for the market and properties, we have remained of the view that as long as the Authority retains possession of the Towers and the resultant rental income, there will be a real risk that the Market Account will tend to be subsidised by the Properties Account through misattribution of joint overheads and expenses and that the market tenants will use the large rental income received by the Authority as a reason for paying less rent than might otherwise be the case.

It is for these reasons (which have nothing to do with either the principle of denationalisation or the need to reduce the PSBR) that we have favoured sale of the Towers and still do so: the desirability, for PSBR reasons, of the sale taking place in 1979-80 is a quite separate matter. Thus while taking full account of Michael Havers' cautionary words, it remains our view that the Authority should be pressed to sell the building. If in fact the Authority or some of its members chose to contest the legality of this we might then have to take further and more detailed advice, but I should have thought that in practice there was every prospect that, provided that we showed ourselves sufficiently determined in the initial exchanges, the Authority and its individual members would be most reluctant to press the matter to a confrontation.

Copies of this letter to to the Prime Minister, the Attorney General, all members of E(DL), the Lord Privy Seal, the Secretary of State for Scotland, the Lord Advocate and Sir John Hunt.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large flourish extending from the 'L'.

NIGEL LAWSON



16 JUL 1979

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~~25~~ 24 24



ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

R 17/7

16 July, 1979

Dear Keith,

DISPOSAL OF ASSETS BY BRITISH STEEL CORPORATION

I have seen the Lord Advocate's letter to you of 12 July.

In fact there is no disagreement between us. In referring to a sale with the agreement of the BSC Board "as a whole" (paragraph 4 of my letter to you of 10 July) I meant the BSC Board acting as a Board, that is in accordance with the voting procedure which applies to the transaction in question; certainly it is not a legal requirement, unless the Board's own rules of procedure say so, for every member of the Board to signify agreement to a sale of assets and for this to be recorded in the Board's minutes. But I agree with the Lord Advocate that in the present circumstances it would be desirable for the Board to act, and to be recorded as acting, unanimously through all its members.

This is copied to all the recipients of the Lord Advocate's letter.

Yours Gov. Michael

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

17 JUL 1979





12501
 Sir Lairey
 Sir A Rawlinson
 Mr F. Jones
 Mr Bailey
 Mr Monck
 Mr Roberts
 Mr Lavelle
 Mr C Thomas.

Treasury Chambers, Parliament Street, SW1P

Minister of Agriculture
 Ministry of Agriculture, Fisheries and Food
 Whitehall Place
 LONDON
 SW1A 2HH

[Handwritten signature]

16 July, 1979

[Handwritten initials]

✓ Mr

FORESTRY COMMISSION

As you may be aware, I have been giving some thought recently in the context of the disposals exercise to the possibility of our selling off some of the Forestry Commission land.

The vast bulk of this land consists of the Commission's plantations which I accept we might well not wish to sell. However this still leaves a substantial remainder of unplanted land owned by the Commission. This will no doubt be covered by Michael Heseltine's exercise on surplus land but given the rather special characteristics of the Commission's land, and the particular problems and policy implications involved in selling it, I thought it right to ask you and the other Forestry Ministers (to whom I am copying this letter) for your views in advance of Thursday's E (DL) meeting.

The first requirement, it seems to me, is to establish in consultation with the Commission exactly how much unplanted land the Commission now has, what its current value is and how marketable it is. According to the Commission's last published accounts, at 31 March 1978 it had some 83,000 hectares of land in its plantable reserve and a further 307,000 hectares of other unplanted land. The value of all this land, plus the buildings on it was then assessed at nearly £75 million, of which "surplus estate", mainly agricultural and grazing land, accounted for about £10 million only. These figures clearly need updating, and I should be surprised if, after recent land price rises and by looking again at the division between surplus and non-surplus assets (including the miscellaneous land) and their valuation one did not come up with a surplus estate value considerably higher than £10 million. It would be helpful if we could then estimate how much might be raised, and how quickly, by a business like effort to dispose of this estate.

I recognise of course that it is already Forestry Commission policy to sell of its surplus estate. However the second proposal which I should like you to consider is somewhat more radical. This relates to

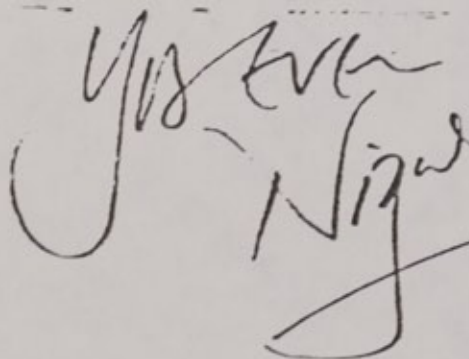
the Commission's plantable reserve. As I mentioned above, on 31 March 1978 this comprised some 83,000 hectares which at current land prices could be worth around £33m. The PES reductions which the Chief Secretary has sought will restrict considerably the Commission's land acquisition and new planting activity but it seems to me that it is for consideration whether it should be our policy to allow any further investment by the Commission in land acquisition or new planting, and whether instead we should limit the Commission to cultivating and restocking its existing planted area, leaving all new planting to be undertaken by the private sector. This would then open up the possibility of selling off some or all of the Commission's plantable reserve.

This would, I accept, be a significant departure from recent forestry policy but I should have thought it would be fully consistent with the general approach to which the Government is committed and need not necessarily have an adverse impact on planting levels in the longer run. In any event I think the idea merits serious consideration and I should be grateful for your and other Forestry Ministers' views on it and your estimate of the amount which we might raise by this means.

Finally, I have been surprised to find that the Commission currently has no target date set for it by which time it (or at least the Forestry Enterprise) should cease to be dependent on Exchequer finance. It seems to me that it would be desirable to remedy this omission so as to provide the Commission with a real incentive to minimise its call upon the Exchequer. I recognise that given the age structure of the Commission's forests the target date might have to be some years on. But this does not in my view weaken the case for setting such a target. I should be interested to have your views on this. If you are in agreement we could then begin to discuss with the Commission when would be a reasonable target date.

I realise that all the above points will need some careful consideration indeed that is my reason for writing this letter now. Nevertheless I should be most grateful if you would at least give some preliminary indication of your reactions at next Thursday's E(DL) meeting.

I am copying this letter to the Secretaries of State for Scotland and Wales, members of E (DL), the Attorney General, the Prime Minister and Sir John Hunt.



NIGEL LAWSON



12 16(7)

Treasury Chambers, Parliament Street, SW1P 3AG

16 July 1979

The Rt Hon Peter Walker MBE MP
 Minister of Agriculture
 Ministry of Agriculture, Fisheries and Food
 Whitehall Place
 Whitehall
 LONDON

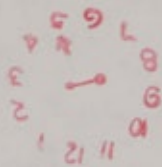
SALE OF BRITISH SUGAR CORPORATION SHARES

Our correspondence about the sale of BSC shares rests with my letter to you of 6 June but at last week's E(DL) meeting you referred to your continuing preference for a later rather than earlier sale of these shares.

I wonder if I could pursue this a little further. The point which you earlier made about the price effects of a further green pound devaluation (and which I felt had some force) has now been met. As you know I found it difficult to attach so much weight to your other argument - relating to the BSC-Tate & Lyle situation - not least in view of the powers which, even after a sale, would remain yours under the Sugar Act 1956. However, this would not worry me unduly if I could now be clear that it was your firm intention to sell the shares some time in 1979-80. While there may be some scope for adjusting the timing to fit with your discussion on the BSC-Tate and Lyle situation within 1979-80, this sale is clearly included in the arithmetic to which the Prime Minister's summing up referred. For the avoidance of doubt I would be grateful if you could confirm that you now judge it practicable to sell the shares in 1979-80.

I am sending copies of this letter to other members of E(DL), the Prime Minister, the Attorney General and Sir John Hunt.

NIGEL LAWSON



16 JUL 1979

CONFIDENTIAL

tw

HMT
D/Ind
MAFF
D/Env
D/N
Chief Sec.
Fin. Sec.

CDL
PMG
CWO
CO

16 July 1979

The Prime Minister has read your Secretary of State's letter of 13 July to the Chancellor of the Exchequer about the financing of British Airways.

The Prime Minister is concerned that the Government may be rushing into decisions on this issue without adequate preparation, and she has asked that Mr. Nott's proposals should be discussed by Ministers collectively. I understand that it could be put on the agenda for E(DL) on Thursday of this week. Since I also understand that there is no possibility of a statement on Wednesday 18 July, which was Mr. Nott's preferred date, and that Friday 20 July has been provisionally set aside, this should not cause any difficulty.

I am sending copies of this letter to the Private Secretaries to the members of E(DL) Committee, to John Stevens (Office of the Chancellor of the Duchy of Lancaster), Richard Prescott (Office of the Paymaster General), Murdo Maclean (Chief Whip's Office) and Martin Vile (Cabinet Office).

PL

T.G. Harris, Esq.,
Department of Trade.

CONFIDENTIAL

PL



CONFIDENTIAL

From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall
SW1

*This is rushed
too much
must come before
E.*

*1. Mr Sanders
2. Prime Minister*
*I have sat you
a separate note
about the statement
timetable through
to the recess
MS*

*To note at this
stage: I suggest
we wait to see
the Chancellor's comments*

13 July 1979

TJ

1317

Dear Chancellor of the Exchequer,

FINANCING OF BRITISH AIRWAYS

At E(DL) last Thursday there was a general welcome for my proposal for reconstituting British Airways within the framework of the Companies Acts. This would provide the basis for a sale of part of the equity to the private sector. The revenue thus raised will be a useful contribution to our programme for the disposal of public assets but this proposal will also provide the basis for removing the airline's investment programme of nearly £1 billion over the next five years from the public sector borrowing requirement. It was agreed that the necessary provisions should be included in the Civil Aviation Bill already planned for the present Session. There are strong reasons why I should make an early announcement of our intentions in general terms:

- a) In order to take the plan forward, and to frame the legislation, we need to put in hand detailed discussions with a wider group of people in British Airways than the handful of the most senior Board members who have so far been involved. It would be impossible to carry out this work and at the same time maintain the very high degree



of confidentiality which has so far been observed. We therefore need to take the initiative in explaining our plan and not allow it to become public merely through leaks about the work in progress.

- b) The British Airways Board are publishing their annual Report and Accounts for 1978/79 on Thursday 26 July and the Chairman, Mr Ross Stainton, will be holding the usual press conference on that day. It will be highly desirable that my own statement should have been made some time in advance of that, so that Stainton will be able to answer questions about the Board's attitude towards the plan. As you know, I have every reason to believe that, properly handled, this measure can secure support from the Board and its active co-operation which we shall need.
- c) The timing of my statement must take account of the timetable for Keith Joseph's consultations and announcement about his plans for British Aerospace. He has told me that, if I can get in first with my statement about British Airways, so that there is no confusion between the two operations, he will be content.

I would, therefore, like to make my statement about British Airways as soon as possible, ideally in the week beginning 16 July, and for preference on Wednesday 19 July. However, I recognise that this does not give colleagues a great deal of time to consider the matter and would therefore be prepared to hold it over until Monday 23 July if
.... that would be more convenient. I enclose a draft statement, together



with a list of possible supplementary questions and answers. In view of the E(DL) conclusions I should not think that this should cause any difficulty for you and other colleagues concerned, and I should be grateful for your agreement.

This material has been drafted so as not to involve questions of detail which might require collective Ministerial discussion, though such a discussion will no doubt be required at a later stage when our proposals have taken more concrete form. I hope that any points arising on the draft could be cleared by correspondence or through consultation at senior official level. However, if you did feel that a meeting with colleagues should be held before any statement I would, of course, be perfectly happy though it would have to take place soon to meet the timetable which I have suggested.

Finally, I should add one important point. Our chances of obtaining the co-operation of British Airways' management and labour will be greatly improved if I am able to reassure them that we have no present intention of breaking up or of hiving off individual parts of the airline. British Airways would also like me to say that the Government proposes to retain a majority shareholding and I feel that I need at any rate to say that what I am announcing does not involved more than the sale of a minority shareholding. I hope you will allow me to present our proposals in a way which is least likely to arouse controversy on these points. This would allow us to introduce a scheme which will not pre-empt the Government from moving further at a later stage.

I am sending copies of this letter and enclosures to the Prime Minister, to other members of E(DL), the the Chancellor of the Duchy of Lancaster, to the Paymaster General and the Chief Whip and to Sir John Hunt.

T. Callis

pp. JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)



CONFIDENTIAL

DRAFT STATEMENT

FINANCING OF BRITISH AIRWAYS

British Airways has embarked on a major programme of fleet replacement and expansion and I believe that it has excellent growth prospects. This is an increasingly competitive market and the world energy situation creates uncertainties, but I am confident that the airline will face these challenges successfully.

To meet its objectives it will require a substantial increase in capital investment from both internal and external sources over the next few years. For this reason I have been looking at its capital structure and financial requirements, and I should like to let the House have my views and proposals on the financing of this programme.

?
First, the Government will give British Airways its full support and encouragement in carrying out its programme.

Second, it should have fullest possible access to capital markets both at home and overseas for its future investment needs.

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Third, I propose that the framework of the Companies Act should be used to provide British Airways with a capital structure enabling part of its financial requirements to be raised by the sale of a minority shareholding in the enterprise.

Fourth, my proposal does not involve a separate disposal of any part of British Airways.

C- | Fifth, I should see strong advantages in offering part of the proposed share issue on favourable terms to employees of British Airways so that they can participate in its future and share in its growth.

Sixth, I envisage the fullest possible process of consultation with the airline's management and employees. This is principally a matter for the British Airways Board themselves, but I will be glad to meet representatives of the trade unions concerned.

Seventh, I will put forward proposals in the autumn for the legislation which will be required.

Eighth, at the same time I will set out the Government's thinking on the licensing provisions administered by the

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Civil Aviation Authority. However, I can say now that there will be no arbitrary reallocation of routes and the new financial arrangements are not designed to have any adverse effects on the route structure of British Airways.

CONFIDENTIAL



BRITISH AIRWAYS STATEMENT
NOTES FOR SUPPLEMENTARIES

1. Q. WHAT IS THE PURPOSE OF THIS PROPOSAL?

A. International civil aviation is a highly competitive business. Our proposals will give BA the flexibility and freedom from Governmental interference that is crucial to success in that market.

2. Q. WHAT IS THE ATTITUDE OF THE BRITISH AIRWAYS BOARD TO THESE PROPOSALS?

A. I have informed the chairman of my proposals so that he can convey them to the Board, to management and to representatives of the employees. There will now have to be detailed discussions about the plan. [Add something more positive in consultation with the chairman before the statement is made.]

3. Q. IS THE SECRETARY OF STATE AWARE THAT THE WORKERS AT BA HAVE ALREADY EXPRESSED THEIR OPPOSITION TO ANY SUCH PLAN?

A. I see no reason why the employees should be opposed to a scheme which maintains the integrity of the airline and will be of benefit to everyone involved in it.

4. Q. WILL THE GOVERNMENT GIVE AN UNDERTAKING TO RETAIN A MAJORITY SHAREHOLDING IN BRITISH AIRWAYS?

A. My proposal involves a sale of only a minority of the shares.

5. Q. BUT WHAT ABOUT SUBSEQUENTLY?

A. That is a hypothetical question.



6. Q. WHEN WILL SHARES BE OFFERED FOR SALE?

A. We shall of course need the legislation first. Suitable dates will then be chosen for the issue of the shares.

7. Q. WHAT SPECIAL ARRANGEMENTS WILL BE MADE FOR EMPLOYEES TO ACQUIRE SHARES?

A. I propose to give special attention to this in preparing the detailed arrangements.

8. Q. HOW MUCH DOES THE GOVERNMENT EXPECT TO RAISE FROM THE SALE OF BA SHARES?

A. I expect the issue to realise a substantial amount but, it is far too early to put a figure on it.

9. Q. WILL THE GOVERNMENT SELL OFF ANY OF BA'S SUBSIDIARIES?

A. I have made it clear in my statement that my proposals do not involve this.

10. Q. WHAT ARE BA'S FUTURE CAPITAL REQUIREMENTS/HOW WILL PUBLIC EXPENDITURE BE REDUCED?

A. BA's total capital expenditure is ^{provisionally estimated} ~~likely~~ to run at an average of £500m a year for the next 5 years, of which some £200m a year ^{could} ~~will~~ take the form of external finance. Thus my proposals entail a saving to the PSBR of £1 billion over 5 years.

11. Q. WHY CAN'T BA FUND A GREATER PROPORTION FROM THEIR OWN RESOURCES?

A. The self-financing ratio for the capital investment programme is nearly 60% which is a reasonable proportion by commercial standards, given the size of the programme involved.



12. Q. WHY SO MUCH CAPITAL EXPENDITURE?

A. British Airways faces a heavy fleet acquisition programme to replace a large number of aircraft which will not meet new noise regulations due to be applied from 1 January 1986 and which are in any case reaching the end of their useful lives and becoming increasingly uneconomic to operate. The rising cost of fuel, combined with increasing price competition in international aviation, make it essential for BA to re-equip with the aircraft which are most efficient for their route structure.

13. Q. WHAT SAFEGUARDS WILL THERE BE AGAINST TAKEOVER OF BA BY FOREIGN INTERESTS?

A. The Government already has such a safeguard under Section 22(3) of the Civil Aviation Act 1971. This provides that the Civil Aviation Authority shall refuse to grant an air transport licence if it is not satisfied that the applicant is:

- a) a United Kingdom national; or
- b) a body which is incorporated under the law of any part of the United Kingdom or the law of a relevant overseas territory or an associated state and is controlled by United Kingdom nationals,

unless the Secretary of State specifically consents to the issue of such a licence.

14. Q. WHAT IS THE GOVERNMENT'S POLICY ON FUTURE COMPETITION FOR BA FROM OTHER UK AIRLINES?

A. We shall in due course be putting proposals to Parliament to replace the existing Guidance but, as I have made clear in my statement, there will be no arbitrary reallocation of routes.

13 JUL 1979



SECRET

Econ Pd. 23



Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone : Direct Line 01-212 0761
Switchboard 01-212 7676

Ca Energy July 79

Future of BNOG

12 July 1979

The Rt Hon Sir Michael Havers QC, MP
Attorney General
Attorney General's Chambers
Royal Courts of Justice
Strand London WC2

12 1311

Dear Michael,

DISPOSAL OF PUBLIC ASSETS

I have seen your letters of 10th July 1979 to David Ennals and Peter Walker on the BNOG Review and Market Towers building respectively.

In the case of Market Towers I would agree that unless the Authority are satisfied as to the proviso in section 18(2) of the 1961 Act they would not be entitled to sell and consequently if the Authority were opposed to a sale it would be dangerous to make a direction under section 2(1) of the 1977 Act.

In respect of the BNOG situation although strictly speaking they are not legal points, I would agree with what you say in paragraph 3 (i) and (ii). Similarly I think the point you make in paragraph 3 (iii) is a valid one although obviously it is impossible to predict the effect of such a proposal.

I would also agree with the difficulties which you foresee in relation to the proposal that BNOG should relinquish its equity interests in sixth round licensed areas.

I am copying this letter to the Prime Minister and to the other recipients of yours.

Yours etc,

Jaw.

MACKAY OF CLASHFERN

SECRET



22

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

0515
Telephone : Direct Line 01-212 0761
Switchboard 01-212 7676

12 July 1979

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1

DISPOSAL OF ASSETS OF BRITISH STEEL CORPORATION

I have seen a copy of the letter sent to you by the Attorney General on 10th July 1979.

I would agree with what the Attorney says in relation to the ability of BSC to sell its assets of its own volition. I am not however convinced that the agreement of the Corporation as a whole would be necessary. Schedule 1, paragraph 6, provides for the Corporation to operate with a quorum to be determined by the Corporation within the limits laid down by sub-paragraph (1). Sub-paragraph (3) enables the Corporation otherwise to regulate its own procedure, and unless it specified that the disposal of assets could only be effected with the agreement of the whole Corporation, then the Corporation's normal voting procedures would apply.

I would however agree that in the political circumstances prevailing it would be safer if all of the members of the Corporation were in agreement with the proposed disposal so that there could be no risk of a challenge to the decision which could result in litigation (regardless of its likely outcome).

This letter is copied to the Prime Minister, the Attorney General and other recipients of his letter.

MACKAY OF CLASHFERN

Approved by the Lord Advocate
and signed in his absence.

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13 JUL 1974



01-405 7641 Extn

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

R 12/7

10 July, 1979

Dear Keith.

DISPOSAL OF ASSETS OF BRITISH STEEL CORPORATION

At E(DL) on 5 July I undertook to write to you with advice on the disposal of certain assets by BSC. This is dealt with in paragraph 21(ii)(a) of and paragraph 7 of Annex A to Nigel Lawson's Memorandum of 2 July to E(DL) under reference(79)6. According to Annex A the assets consist of BSC's 3% shareholding in Tube Investments, overseas interests (mainly Australian) and some land; I have no further details.

2. BSC was as you know set up under the Iron and Steel Act 1967. This Act has now been repealed in full and is replaced by the Iron and Steel Act 1975. Among other things BSC has the duty, under section 2(1)(a) of the 1975 Act, "to promote the efficient and economical supply of iron and steel products". Accordingly it has the power, under section 3(1)(a), "to carry on any iron and steel activities and to sell iron and steel products"; and under section 3(5) it has a supplemental power to do anything, including disposal of any property or rights, which in its opinion "is calculated to facilitate the proper carrying on" of any section 3(1)(a) activity.

3. I now understand that no question arises here of the BSC being directed by you to sell the assets and thus I do not have

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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

-2-

to construe the powers of direction in section 4 of the 1975 Act to see whether they are adequate, or could be validly exercised in present circumstances. I am therefore solely concerned with the validity of any sale by the BSC itself, as to which I advised at E(DL) that this should present no serious difficulties.

4. Under section 2(5)(b) of the 1975 Act there is a provision, not found in the pre-1972 iron and steel statutes, which states that nothing in earlier parts of section 2 (general duties of BSC, including duty to promote supply) or in section 3 (powers of BSC, including power to carry on iron and steel activities) precludes the BSC from disposing of an asset used or capable of use for the purpose of any of those activities. In my view this removes any obstacle to sales by the BSC provided that the BSC Board as a whole is in agreement and this is recorded in the minutes of any meeting of the Board at which specific sales are authorised.

5. On these terms I am prepared to say that sales of the assets in question can be effected by the BSC acting voluntarily under section 3(5) of the 1975 Act, without the need for further legislation.

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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

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6. I am copying this to the Prime Minister, all members of E(DL), the Lord Privy Seal, the Secretary of State for Scotland, the Lord Advocate and Sir John Hunt.

*Yours Grv.
Michael.*

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RS

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S E C R E T



01-405 7641 Extn

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

10 July 1979

New Peter,

N 117

MARKET TOWERS

At E(DL) on 5 July I undertook to write to you about the proposed sale of the office building called Market Towers at Nine Elms, owned by the Covent Garden Market Authority. This is referred to in Nigel Lawson's Memorandum of 2 July to E(DL), under reference 79(6)⁵, at paragraph 21(ii)(a) and at paragraph 6 in Annex A to that document.

2. Under the Covent Garden Market Act 1961, which has been amended since that date to take account of the removal of the Market from the Covent Garden to Nine Elms, the CGMA has the statutory duty, amongst other duties, of managing the Market. Under section 18(2) of the 1961 Act (since amended but not in a way that affects this advice) the CGMA has a supplemental power to dispose of any property or rights "not in their opinion required for the proper exercise or performance of their functions" so long as the disposal is, also in their opinion, "calculated to facilitate the proper discharge of their duties or is incidental or conducive thereto".

3. According to Nigel Lawson's Memorandum, the retention of Market Towers "is not necessary to the functioning of the Market". If this is genuinely the case, and this would have to be the opinion of at least a voting majority of the members of the CGMA, then I am prepared to advise that the CGMA can sell the building under section 18(2) of the 1961 Act and that the sale would be valid. This is subject to the caveat in 5 below.

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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

4. However it has been suggested to me that this may not be the case and that the CGMA, or a voting majority of members of it, continue to be opposed to an outright sale as I am told they were when the last Government approached them about it. If this is right, then section 18(2) is useless in practical terms and in particular no formal decision to sell could be taken by the members of the CGMA - as to which any intending purchaser would I think be bound to insist on written evidence.

5. If on the other hand my information is wrong and most if not all the members of the CGMA reasonably take the view, in all the circumstances, that the building can be sold as surplus to requirements then, as stated in 3 above, section 18(2) can be used to effect the sale. However if there are a substantial number of members who reasonably oppose, even if they are in a voting minority, then to my mind there is at least a likelihood of a sale under section 18(2) being attacked as offending the principles in paragraphs 5(1) and 5(3) of my letter of 8 June to David Howell, copied to you, either on the grounds that the sale had the effect of preventing the CGMA from carrying out its statutory duties (the first principle) or because on the facts the true object of the sale was to reduce the PSBR or to pass the ownership of the building into private hands (the third principle). But I cannot say what the outcome of proceedings to impugn the sale would be.

6. There is a power of direction over the CGMA under section 2(1) of the Covent Garden Market (Financial Provisions) Act 1977, but it is subject to criteria similar to those in section 18(2) of the 1961 Act - that the disposal would, in your opinion as Minister, facilitate the proper exercise or performance of the CGMA's powers and duties - and I think it follows from what I have said above that no disposal could validly be directed under section 2(1) of the 1977 Act, if,

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LONDON, WC2A 2LL

on the facts, no valid sale could have taken place under section 18(2) of the 1961 Act.

7. In summary, whether a valid unforced sale by the CGMA can take place depends on whether the criteria in section 18(2) of the 1961 Act are met; Nigel Lawson's Memorandum suggests that they are, but since some doubt has been cast on this I felt obliged to state what the legal position would be if they are not. It is of course possible that the CGMA will not sell even though a sale under section 18(2) would be valid, in which case directions under section 2(1) of the 1977 Act could be considered, but that seems unlikely and I prefer not to advise on this unless you tell me that it is under active consideration.

8. I am copying this to the Prime Minister, all members of E(DL), the Lord Privy Seal, the Secretary of State for Scotland, the Lord Advocate and Sir John Hunt.

Yours Av.
Michael.

The Rt. Hon. Peter Walker, MBE., MP
Minister of Agriculture, Fisheries and Food.

- 3 -

S E C R E T

C O N F I D E N T I A L



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Previous references
requested NOT with
or a/r.

Tim Lankester Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

1. *Mr. Pattison*
2. *Mr.*
6 July 1979

MSM

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18/7

Dear Tim

I understand that Sir Kenneth Berrill has suggested that there should be an examination of the possibility of disposing of the Sealink part of British Rail. This arose from Martin Hall's letter to you of 7 June about nationalised industries.

The attached ^{requested} note sets out some of the issues that would have to be examined in order to establish what would need to be done to make it possible to dispose of Sealink. But Mr Fowler is not convinced that it would be very useful to do any further work at the moment.

He has already made it clear (most recently in his letter of 29 June to the Financial Secretary) that he would not favour trying to sell off BR subsidiaries at this stage. In his view, the right line of policy is to seek ways to engage private capital in Sealink and some other parts of the British Rail group, as is proposed for NFC. To sell off particular subsidiaries (or even to suggest that the idea is under serious consideration) would run into considerable and certainly very expensive opposition from the unions and would not command the cooperation of the Railways Board, who would of course have to be involved in any further detailed study of the idea. Industrial trouble on the railway as a result could quickly wipe out any potential profit from the sale. Mr Fowler will

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be carrying forward his preferred alternative, of exploring with the Railways Board ways of engaging private capital into this or other parts of the Board's operations.

Sir Kenneth Berrill may be interested to know that there have been no approaches to the Department or the Board about the possibility of selling off Sealink.

I am sending copies of this to Sir Kenneth Berrill and to Martin Hall.

Johns

Genie

MRS E C FLANAGAN
Private Secretary

C O N F I D E N T I A L

CONFIDENTIAL

SEALINK UK LIMITED - POSSIBLE DISPOSAL

Present Business

1. Sealink UK Limited ('the Company') is a wholly-owned subsidiary company of the British Railways Board (BRB). It operates 54 ships on 30 routes within the United Kingdom and to Ireland and the Continent, owns 11 harbours, and employs over 10,000 staff. It is the largest ferry operator in UK waters. Sealink receive no Government subsidy and is required to operate commercially. In 1978 with a gross income of £158.9m the business made a record operating surplus of £12.2m. Its assets have an approximate net book value of £140m. In December 1978 a financial target was agreed for the Company, to achieve a real rate of return on net assets of 5 per cent by the end of 1982. It will have to work hard to do so.
2. The major commercial businesses of the Company are the shipping services to the Continent and Ireland, principally operated by multi-purpose roll-on/roll-off vessels, capable of conveying passengers, cars and commercial vehicles. In addition to the commercial shipping and harbours operations, there are several services (train-ferries and container ships) which are kept going in the corporate interest of the Board. These services are operated under a contract with the railways which ensures that the Company break even on the operation. Sealink also operate unprofitable estuarial services across the Thames at Tilbury and - until the new bridge opens - on the Humber.
3. Capital investment in the shipping services was curtailed in the early 1970s pending the outcome of the Channel Tunnel feasibility study, leaving the Company with an older fleet of ships than its main competitor. Three new multi-purpose ships are now under construction at Harland and Wolff, and

investment in a fourth ship has been authorised. Further major investment is planned over the next five years.

Statutory Constraints

4. Legislation would be needed if it were decided to sell the Company: it is very doubtful whether the Board's existing powers of disposal, or the Minister's powers of direction, would be adequate. Legislation would need to deal with the existing statutory restrictions on the services provided: under S5 of the 1962 ^{Transport} Act and S47 of the British Railways Board Act 1967 the Company may only operate shipping services from ports from which the pre-1947 private railway companies had powers to provide services. The Railway Shipping Acts would need to be reviewed. The Board's common law obligation to operate a ferry service between Tilbury and Gravesend would also have to be dealt with.

Relationship With Foreign Operators

5. The cross-Channel services are operated in partnership with SNCF, the Belgian Maritime Transport Authority and the Dutch Zeeland Shipping Company. In each case operating agreements exist providing for a common timetable, prices, revenue pooling and so on. These agreements are terminable on six months' notice in writing by either side. In the case of SNCF, the relationship with Sealink is close and intricate; for instance the ships operating the Newhaven-Dieppe service are jointly owned. It is not known how far these agreements are now by the Company, or are all by the BRB. In any case, negotiation with the overseas undertakings and maybe with their Governments would be needed to disentangle them.

Relationship With Railway

6. The services carrying rail passengers are listed under an international convention, so that railway undertakings can sell through tickets. New arrangements would have to be constructed to secure the same effect, so that in these cases disposal of the Company would become a form of 'contracting'. New arrangements would also be needed for the train ferry and containership operations. Detailed work would probably be needed also to demarcate the Company's property from the railway's, to give the Company ownership, and to establish reciprocal obligations.

Industrial Relations

7. The Company's intra-UK ferries (Humber, Tilbury, Isle of Wight, Windermere) are manned chiefly by NUR and TSSA members, and the Irish and Continental ferries are manned by NUS members employed by the Board and enjoying the benefits of such employment (eg rail travel concessions). The ports are staffed by the railway union members. The NUR has expressed its opposition to disposal of the Board's interests; the NUS members could be expected to oppose any disposal that would adversely affect their conditions of employment. Industrial action arising from a proposal to sell off the Company would be a strong possibility and its effects, even if confined to Sealink ferries alone, might be severe (a recent go-slow on the Isle of Wight services came close to damaging severely the island's tourist trade and economy). There is a real possibility that industrial action would spread to the railways as a whole.

Effects on BRB

8. It is not possible at this stage to form any estimate of the effect of a disposal of the Company on BRB's finances.

9. The Company is the first part of BRB's operations for which a clear financial target expressed as a return on assets has been settled. The Company has been establishing a clear system of profit centres. On setting up the Company, on 1 January 1979, BRB provided it with a new capital structure with both equity and fixed interest components. If the Company were now to be disposed of, the extension of these concepts into other parts of the Board's operations would not be encouraged.

Shipbuilding Industry

10. BRB's recent policy has been to place orders with the UK yards, so that Harland and Wolff has now had orders for four ships. (European Ferries, Sealink's main competitor, have placed recent orders in German yards; P&O have been buying in Korea.



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

4 July 1979

Dear Paula

E(DL) MEETING, THURSDAY 5 JULY

Thank you for your letter of 2 July. As I explained when we discussed this by 'phone, my Secretary of State has, of course, been considering whether he could bring forward any further proposals for sales of land and/or property. This work is continuing and he cannot quantify at this stage what extra might be possible.

I am copying this to the recipients of your letter.

Yours sincerely

David Edmonds

D A EDMONDS
Private Secretary

Paula Diggle
PS/Financial Secretary

4 JUL 1979



CONFIDENTIAL

Ref. A09901

PRIME MINISTER

Financing of British Airways - Share Issue

(E(DL)(79) 4)

BACKGROUND

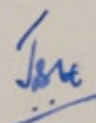
This paper was in preparation before the present meeting was arranged. It has been put on this agenda because the Secretary of State for Trade suggested to you that disposal of part of British Airways would be an acceptable alternative to the sale of BP shares. This proposition proves doubtful on examination. As my main brief explains, there is little chance of legislation in the present Session, at least in time to effect a sale in 1979-80. If this is confirmed the proposals in the paper need not be pursued at the present meeting. There is also a question mark over the treatment of the figures: the particular solution recommended by Mr. Nott might not actually reduce the borrowing requirement (though it would help to finance it). You need not get drawn into this technical argument if there is no prospect of legislation in time.

HANDLING

2. I suggest you start the discussion yourself on these lines, and then ask the Secretary of State for Trade to introduce his paper, as briefly as possible. The Chancellor of the Exchequer may wish to reply. You might aim to steer the Sub-Committee away from any more substantive discussion, remitting detailed study of these proposals to a further meeting of E(DL) under the Chancellor of the Exchequer later.

CONCLUSIONS

3. You might leave these to the end of the meeting: but they will probably be that this proposal cannot score in the present year, and that the detailed suggestions should be examined more closely by the Sub-Committee before decisions are taken.


JOHN HUNT

4th July, 1979

Page 10001

Page 10002

Department of Transportation - Bureau of Railroads

(Circular)

Page 10003

This paper was in preparation during the present meeting and was intended to be read at the meeting. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads. The Committee has held several public hearings and has received many suggestions from the public. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads.

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U.S. DEPARTMENT OF TRANSPORTATION

The Committee has held several public hearings and has received many suggestions from the public. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads. The Committee has held several public hearings and has received many suggestions from the public. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads.

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COMMITTEE

The Committee has held several public hearings and has received many suggestions from the public. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads. The Committee has held several public hearings and has received many suggestions from the public. It is the result of the work of the Committee on the subject of the proposed legislation for the improvement of the railroads.

U.S. DEPARTMENT OF TRANSPORTATION

Page 10004

SECRET

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Ref. A09900

PRIME MINISTER

Disposal of Assets

(E(DL)(79) 5)

BACKGROUND

(Item 2) You decided to take over the chair of this meeting of the Sub-Committee yourself. (Mr. Lankester's letter of 25th June.) This followed from an unresolved discussion about the "some £1 billion" of asset sales which the Chancellor promised in the Budget Speech to find this year. Your concern was mainly about the timing and the extent of the proposed sale of BP shares. At the same time, the Secretary of State for Energy was concerned about the proposed disposals of BGC and BNOC assets. He has since circulated a major paper (E(DL)(79) 6) about the future of BNOC. A substantive discussion of oil policy, including the role of BNOC, will be necessary at a later stage but to pursue it now would be to complicate an already complex discussion. Tomorrow's meeting could therefore be confined to the possibility of disposals without damaging the Government's oil policy objectives. For that reason, I have placed the Financial Secretary's paper first on the agenda, and suggest you use it as a framework for the meeting. You will need to look at Mr. Howell's papers against that background.

You will remember that the Chancellor's Budget target came down from disposals of £1.2 billion to £1 billion, largely because of problems over the BGC and the BNOC assets. The doubts about the BP sale were voiced subsequently, after the Chancellor had made it clear that BP would account for a substantial part of his total. A number of other Ministers have suggested alternatives, but none of these add up, in total, to anything like the sum required. To achieve that target will require the sale of a large slice of the present BP holding, or alternatively the sale of most of the BNOC assets to BP (dealt with in the second paper from the Secretary of State for Energy). The arithmetic is set out in an Annex to this brief.

SECRET

HANDLING

You will want to start by inviting the Financial Secretary to introduce his paper. It falls into two halves: the arithmetic of the £1,000 million (see Annex again) and the mechanics of the BP sale; and so might the discussion.

I. Options for raising £1,000 million

It will be best to run through the possibilities mentioned in paragraphs 2-8 and set out in more detail in Annex A. You will want to avoid becoming bogged down with those sales which cannot contribute to the 1979-80 PSBR.

(a) National Enterprise Board

The proposals are agreed: but the legislation may be difficult. It will form part of the Industry Bill. The Secretary of State hopes to introduce this in November and get Royal Assent by January. That in itself would be difficult, as QL recognised. But he has not even got policy clearance yet for the other parts of the Bill, some of which are quite controversial (especially those dealing with the regional activities of the NEB). If you score this £100 million therefore, you should make it clear to the Secretary of State that he must press ahead urgently with his legislative proposals.

(b) Suez Finance Company

No legislation needed. Sale this year cannot be guaranteed.

(c) British Sugar Corporation and Covent Garden Market Authority

Neither of these needs legislation. Some part of the proceeds would be needed to offset other expenditure by MAFF. But the Treasury are reckoning on £15 million being available for the disposals package.

(d) Land (paragraph 16 of Annex)

The Secretary of State for the Environment has promised £30 million firm (including the £20 million on New Towns mentioned in the letter of 2nd July from the Chancellor's office), without legislation. We know he has something else up his sleeve, but he has so far refused to specify what it is. (We think he wants to offer it in exchange for some modification of the BP deal.) This is very unsatisfactory: if he makes a

firm proposal at the meeting, you will want to insist that it is something which does not require legislation, or can be tacked on to legislation which will get Royal Assent in time to show results in 1979-80. Otherwise, it does not score in this package, however useful it may be for later years.

(e) British Steel Corporation

No problem - no legislation needed. 32 1.1

The remaining proposals are listed in Annex A, but none of them can produce savings in 1979-80. You may not want to waste much time on them. Points arising are:

(f) Cable and Wireless

The Treasury view is that this will not actually yield anything in the current year.

(g) British Airways

Mr. Nott raised this possibility with you two weeks ago. It requires legislation, for which there is no provision in the programme. (He is making a last-minute attempt to fit it in, and the Chancellor of the Duchy and the Chief Whip are resisting. There is a separate paper, E(DL)(79) 4, on this prospect: but it does not help in the present year unless the Chancellor of the Duchy and the Chief Whip relent. If after considering his paper (Item 4) the Sub-Committee did want to pursue this possibility, you would have to instruct that room be found for it in the programme, and that Mr. Nott should urgently seek policy clearance for his proposals. A further meeting of E(DL) under the Chancellor of the Exchequer could deal with those.

(h) British Aerospace

This too needs legislation, and there are important policy decisions not yet taken. It seems unwise to count on this in the present year.

(i) British Shipbuilders

This seems even more unlikely than British Aerospace, within the current year.

(j) Radio Chemical Centre

Unlikely to yield very much; together with the next item, £15 million at most.

(k) National Freight Corporation

The Treasury have not scored this one either: although the legislation could be available in time, it does not seem a sensible option and only yields about £15 million. We have not thought it necessary to invite the Minister of Transport for this item.

(l) British Rail

Again this requires legislation and could not be in place in the current year.

(m) Forestry Commission

Legislation again: no provision in the programme.

If the Financial Secretary's bids in paragraphs 2-6 are confirmed, he has now got about £180 million available, and needs a further £820 million. This can come only from sales of BNOC/BGC oilfield assets, and/or from the Government's stockholding in BP.

(n) BNOC and BGC

The Financial Secretary's bid is for £200 million from these two combined. The Secretary of State for Energy, in his own paper on BNOC, offers to find the £200 million, but only specifies two fields (Viking and Statfjord) which together he puts at a range of £80-£148 million. (The Treasury paper says £100-£130 million.) The Treasury suggest the BGC onshore oilfield at Wytch Farm (Dorset); this will yield perhaps £100 million. But the Secretary of State for Energy is reluctant to face the row with the BGC. Legal advice is that he has the powers to direct the Corporation to make this sale. If he is not prepared to do so, then he is driven back on finding the whole £200 million from BNOC, which he is only prepared to do "providing that the legislative difficulties can be overcome and that this is consistent with our overall decisions for the future of BNOC" (paragraph 18 of his paper, E(DL)(79) 6). You might tentatively score £200 million at this stage, and then come back to this option later in the meeting if necessary, following discussion of his paper at Item 2.

SECRET

(o) Sale of BNOG Assets to BP

This too is the subject of a separate paper - E(DL)(79) 7 (Item 3). The idea is to sell sufficient of the BNOG assets to yield about £750 million to BP, leaving a rump BNOG behind to deal with participation oil, manage any remaining equity interests, and (subject to discussion of the next paper) carry out any other functions assigned to it by Government. This is probably a second-best to the proposed sale of BP shares. You will want to defer a decision on this, too, until the Sub-Committee has taken the Secretary of State's paper, and then revert to this point at the end of the meeting.

At this point you might look at the legislative implications. None of the smaller items above looks especially attractive as an immediate option. The legislative programme, as you know, is already very crowded. But if you were forced to scrape the barrel, and include many of these in a disposals package, it would then be worth amalgamating them into an omnibus Bill and guillotining it through soon after the Recess. This would at least ensure that some sales would go through in the current financial year. If necessary you might ask the Financial Secretary to reconsider this idea (which he has previously rejected) and report to you on the possibility.

II. Sale of BP Shares

This is the main part of the paper, and the most difficult. You have already had some discussion with a few of the Ministers concerned. There are five points to establish at the beginning:

- (i) Sale of shares does not, of itself, affect Government control over BP, provided it retains the right to block an amendment of the Company's Articles. Technically that requires 25 per cent; in practice, 15 per cent will be enough.
- (ii) The Government and the Bank between them presently own 51 per cent, of which 20 per cent came from Burmah. We believe that any attempt to sell ex-Burmah shares would simply provoke Burmah to seek an injunction forbidding the sale, and that this would probably be allowed. So in practice there is only 35 per cent of the equity to play with. The Chancellor's proposals involve selling approximately 20 per cent. This would still leave enough to block any change in the control of the company.

- (iii) In practice, ownership of the shares have made little difference to Her Majesty's Government's control over BP: if anything, they are more difficult to deal with than Shell.
- (iv) Whatever the fine print says, there is no way in which the Government can stop the shares passing into foreign hands. They are widely traded internationally already. But this has nothing to do with the destination of BP's oil. This is much more dictated by their international trading commitments. Put bluntly, if we cannot control what BP does with its oil, no foreign owner is likely to do better.
- (v) As regards the future price of BP shares, the problem is one of timing. Some Ministers have argued that the Government would get a better price by deferring the sale. In the long term, that is probably true, as the world oil price moves up in real terms in the '80s. But in the short term, although oil shares have risen since the OPEC increase, the effect of that increase may be to slow down the world economy and weaken the market for oil. To defer the sale till next year would risk a lower price. And in any case the Chancellor's arithmetic requires a sale this year, unless an acceptable alternative can be found.

Nigeria.

Having established these points, there are really five questions to which the Committee should turn: do we sell the BP shares; how much do we sell; when; to whom; and how? All these points are carefully covered in the paper. The main point to watch is the need for an early decision: unless you can reach agreement virtually at this meeting (perhaps with one or two tiny loose ends left over for separate negotiation) we shall lose the July option altogether, and the price may turn against us.

Having covered the ground on BP, you may then want to turn to the other three papers on the agenda, to make sure that the other options have all been considered properly before attempting to sum up.

CONCLUSIONS

(To be recorded at the end of the meeting, after Items 1, 2, 3 and 4.)

This will depend very much on the way the meeting goes. If the decision is to proceed with the BP sale, then the conclusions might be:

SECRET

- (a) To note that, of the £1 billion sales announced in the Budget, £100 million will come from the disposals of NEB shares, and £30 million from disposals of public sector bodies under the Secretary of State for the Environment.
- (b) To agree that a further £50 million should be found if possible from sales of the Suez Finance Company, British Steel Corporation assets, and Government shares in the British Sugar Corporation and the Covent Garden Office Block.
- (c) That a further £200 million should be found, by whatever means the Secretary of State for Energy thinks best, from BGC and BNOC assets.
- (d) The balance of the £1 billion should be found by selling sufficient of the Government's stockholding in BP to reduce it to about 35 per cent (including the ex-Burmah 20 per cent), the timing to be decided between the Chancellor of the Exchequer and yourself.
- (e) That a proportion of the BP stocks should be offered for sale in New York and one other centre abroad; that preference should be given to BP employees and small investors; and that the BP proposal for United Kingdom employee participation should be pursued urgently between the company and the Treasury.
- (f) That the wider issues raised in the Secretary of State for Energy's paper on BNOC be considered at a later meeting of the Committee.
- (g) That E(DL) should consider further the issues raised in the paper by the Secretary of State for Trade on British Airways.

If the decision goes against the sale of the BP shares, or some part of it is modified, conclusions (d) and (e) might be replaced by:

- (h) EITHER that up to x per cent of the BP shareholdings should be sold, and that the balance of the £820 million should be found by the sale of BNOC assets to BP; OR that the whole of the £820 million or as much as possible should be found from the sale of BNOC assets to BP, if necessary leaving a shortfall on the target of £1,000 million.

And in addition, subject to the course of discussion, possibly:

SECRET

- (i) To agree that additional sales of assets in [British Aerospace, etc.] should be added to the list of disposals to produce the total of £1,000 million; and to invite the Financial Secretary, Treasury, to report to you urgently on the possibility of an omnibus Bill to give legislative authority for these disposals early after the Recess.

hu.

pp. JOHN HUNT

4th July, 1979

ANNEX

	£m
<u>1. Sales already agreed</u>	
NEB subsidiaries	100
Land and buildings (New Towns etc.)	30
British Steel	15
British Sugar	15 net
Covent Garden Market	
Suez Finance Company	20
	<hr/>
	180
Gap to be filled	820
	<hr/>
Total	1,000
 <u>2. Other possibilities in 1979-80</u>	
BGC - Wytch Farm	100
Either: BNOC - Viking	Say 120-130 up to 200
BNOC - Statfjord	
Other BNOC disposals	
Or: Sale of BNOC assets to BP	up to 750
Or: Sale of BP shares to public	about 620
 <u>3. Other possibilities, probably later</u>	
Suez Finance Company	20-25
Cable and Wireless (half)	100
British Airways (half)	150
British Aerospace (half)	100
British Shipbuilders	35 net
Radio Chemical Centre Ltd	less than 50
National Freight Corporation	
British Rail - Sealink etc.	25-50
Forestry Commission	?

FILE

28



10 DOWNING STREET

From the Private Secretary

3 July 1979

The Prime Minister has seen your letter to me of 28 June, about disposal of surplus land in the NHS estate. She is pleased to note that your Secretary of State intends to see that the procedures will provide an adequate incentive to dispose of surplus land, and that he is now seeking faster progress of the current review in this area.

M. A. PATTISON

Don Brereton, Esq.,
Department of Health and Social Security.

28

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

*See
Pm's Meeting
to note*

2nd July 1979

to Mr. Lankester

R237

Dear Tim,

*Top copy filed on Econ. Pol
(May 79) 'Pm's Meeting with
Pepper.'*

DISPOSAL OF NEW TOWN ASSETS

In your letter of 18 May reporting the Prime Minister's conversation with Mr. Gordon Pepper, you mentioned, inter alia, Mr. Pepper's ideas for the disposal of new town industrial and commercial assets and the idea of a disposals organisation. This letter is simply to record that the point has certainly not been overlooked (we regard the monetary base idea as sub judice).

2. For 1979-80, the Secretary of State for the Environment offered £20 million towards the disposal of new town assets and this was taken into account in the Budget arithmetic. £20 million was thought to be the maximum that could be offered within the limitations of existing legislation, which permit the proceeds from the disposal of new town assets to be used only for the benefit of the new town which has disposed of them.

3. For the longer term, new town industrial and commercial assets will be dealt with by E(DL) Committee in the course of their survey of the prospects for disposal of public sector land and buildings. The question of new legislation will be covered in the same context, as will the case for a disposals organisation.

4. I am copying this letter to the recipients of yours.

Yours ever,

M.A.

M. A. HALL

T. Lankester, Esq.,

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

R
47

2 July 1979

Dear Financial Secretary,

SALE OF PUBLIC SECTOR ASSETS

The timing of the request in your letter of 19 June that I should estimate the proceeds in 1980/81 and later years from disposals by the nationalised industries which I sponsor leaves me in difficulty, for a definitive reply would seem to pre-empt the consideration of the scope for disposals and "privatisation" which is being pursued by the group of Ministers under Keith Joseph's Chairmanship.

My industries are the two Scottish Electricity Boards and the Scottish Transport Group. I cannot reasonably adopt a policy towards them which differs markedly from that adopted by David Howell and Norman Fowler towards the similar industries in England and Wales. There may also be considerations of sectoral policy which they would wish me to take into account.

For these reasons, I cannot at this stage offer the definitive answers which you seek. The best I can do is indicate that there may be scope for the selling off by the Electricity Boards of some retailing and servicing activities (this may be limited, in parts of the North of Scotland, by the absence of a market on a scale sufficient to attract a private entrepreneur); and, in STG's case, for realising various minor ancillary interests.

I cannot however estimate the amounts involved, far less allocate them to specific years, without consultation with the industries which I am not yet ready to undertake. I do not, in any event, suppose that the sums are likely to be of an order which would have an appreciable effect on the Chancellor's public expenditure arithmetic.

I am copying this letter to the recipients of yours.

Yours sincerely
A Wilson

(Approved by the Secretary of State
and signed in his absence.)

BRITISH
POST

£2 JUL 1979





Treasury Chambers, Parliament Street, SW1P 3AG

2 July 1979

David Edmonds Esq
Principal Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1

R317

Dear Mr Edmonds,

E(DL) MEETING, THURSDAY 5 JULY

This is just to confirm the conversation we had earlier today on the telephone, when I suggested that any proposals your Secretary of State may have for further sales of property or land in the current year might usefully be brought forward for discussion at next Thursday's meeting of E(DL). As I explained, the Financial Secretary's paper (which is being circulated this afternoon) starts from Tim Lankester's letter of 25 June and is intended to be a comprehensive reassessment of the options for sales of assets in the current year; obviously it is highly desirable that all such options should have been tabled before Thursday's meeting, so that the Committee can make their decisions fully briefed. Should your Secretary of State have any further proposals to make, therefore, whether covering the new towns or land disposals generally, the Financial Secretary would be grateful if he would circulate a paper before the meeting or, alternatively, since time is short, if he would write to members of the Committee in advance.

I am copying this letter to secretaries of the other members of E(DL), and to Tim Lankester (since the Prime Minister will be chairing E(DL) on Thursday) and Sir John Hunt.

Yours sincerely,

P C Diggle

P C DIGGLE

Private Secretary

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Nigel Lawson Esq MP
Financial Secretary
Treasury
Whitehall
LONDON
SW1

20 June 1979

Your letter to Keith Joseph of 19 June asked for estimates of sums likely to be realised in 1980/81 and later years from sales of public sector assets.

The one contribution which I can offer at this stage is the selling of shares in NFC. My present intention is to seek powers in the present Parliamentary session to establish NFC as a Companies Act company, and then offer equity shares for sale. I envisage that the offer would not be made until mid-1981 (thus allowing the offer to be made on the basis of the 1980 trading results). On the assumption that the Corporation continue to improve their trading performance between now and then, the market valuation of the equity at that stage might be of the order of £60m. Against this we should make allowance for the deficiency in the pension funds, possibly £25m. So for the present exercise I suggest that you assume £35m in 1981/82. This assumes that we dispose of 100% of the equity. I would

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stress that this is a very provisional figure, since we have not yet taken advice in the City, and in particular it makes the key assumption that the Corporation manage to improve their net profit by about £10m from 1978 to 1980.

The National Bus Company is loss making, and most of the individual companies depend on a considerable degree of support from County Councils, so that I do not think this would be an attractive proposition for private investors. (I am, of course, as a quite separate exercise proposing to relax the present licensing provisions, with the intention of making it easier for new private firms to run profitable bus services.) Turning to the Railways Board, the rail freight business is of only very marginal profitability, and the passenger services are heavily loss making, and totally dependent on public support to enable them to continue. I cannot see, therefore, that there can be a question of getting private money into the main stream rail business. I would also be against breaking up the British Railways Board by attempting to sell off individual profitable subsidiaries such as Sealink, since this would undoubtedly cause a strike costing around £4m a day. Such a loss would probably more than counter-balance any receipts from sales. A BP type solution in respect of Sealink or the Hotels Company seems a more hopeful way to proceed, and I am pursuing this. But I am sure that it is bound to take time if we are not to face industrial troubles.

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Proceeds from the sales of surplus railway land are already taken into account in the Board's financial projections, on which their borrowing requirements and cash limits are based. I hope that recent changes will enable the Board to accelerate this programme, but I have not yet been able to discuss with them just what may prove practicable.

Finally, there is the British Transport Docks Board. Although many of their ports are profitable, here again there could be strike problems if we attempted to sell off individual ports. I am, however, looking at possibilities further, and at least there should be scope for realising more cash from the Board than they are at present providing through their repayment of NLF debt. I hope I may be able to let you have more specific proposals later.

I am sending copies of this letter to the recipients of yours.

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NORMAN FOWLER

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cc D/I
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10 DOWNING STREET

From the Private Secretary

28 June 1979

Disposal of Assets

The next meeting of E(DL) Committee, which the Prime Minister will chair, has now been set for 1715 on Thursday 5 July. I have put to the Prime Minister the points put forward by the Financial Secretary in your letter of 27 June. She agrees that, in view of the close link between the future of BNOC and the disposals exercise generally, Mr. Howell's paper on the future of BNOC should be taken by E(DL) - rather than by E(EA). She would be grateful if Mr. Howell would proceed accordingly.

The Prime Minister also agrees that the Committee should consider the option of BP purchasing all of BNOC's assets; and for this purpose, she would like Mr. Howell to prepare a separate paper dealing with this possibility.

The Prime Minister has asked that the Secretary of State for Scotland should also attend the E(DL) meeting.

I am sending copies of this letter to the Private Secretaries to members of E(DL) Committee, the Secretary of State for Scotland, the Attorney General, the Lord Advocate and Sir John Hunt.

I. P. LANKESTER

Mrs. P.C. Diggle,
H.M. Treasury.

SECRET

PRIME MINISTER

2.



Mr Jenkin says that he intends to improve incentives for hospitals to dispose of surplus land.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

MAD 29/6

28 June 1979

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Mike,

DISPOSAL OF SURPLUS LAND IN THE NHS ESTATE

You asked for comments on the points raised by the Prime Minister on the present arrangements for disposal of land owned by the National Health Service.

My Secretary of State fully shares the Prime Minister's view that the procedures must provide an adequate incentive to dispose of surplus land and this means that those concerned locally must share in the proceeds. As you will see from the attached note which sets out current practice in more detail, there are already moves in this direction but the Secretary of State has made it clear that he expects to see proposals for making much faster progress in this area within the current review.

Yours sincerely

D Brereton
Private Secretary

ENC.

PROCEEDS OF NHS LAND SALES

1. Proposed sales (and acquisitions) of land are included by Regional Health Authorities in their annual capital estimates. Proceeds, subject to any special circumstances, can be retained by the RHA in the year of receipt to finance any category of capital spending, so the land programme as a whole and the disposal of the proceeds of sale are taken into account when approval is given to RHAs' capital programmes. In 1979/80 some £18m of NHS capital expenditure is expected to be funded from disposal proceeds.
2. RHAs are requested to take into account the interest of the area concerned in using sale proceeds, and the appropriate Area Health Authority is able to arrange for such funds to be channelled to a particular district or hospital. There is no reason why land sale proceeds could not be made available direct to a hospital in circumstances where this would be appropriate (e.g. where a hospital is disposing of some surplus property). Health authorities are also strongly urged where land has come up for sale from hospitals for the mentally ill and mentally handicapped, to use the receipts for the development of these services.
3. However, the circumstances in which such disposals are made vary widely, and in many cases it might not be feasible or fair to divert the proceeds to a particular hospital or locality. For example, where disposal is undertaken because an Area is gaining new facilities, it would not necessarily be good planning or fair for the proceeds also to be directed to that Area. They might best be used to fund capital developments elsewhere in the Region. Increasingly it is expected that the use of capital allocations and sale proceeds will fit in with agreed plans for services in each Area, and the disposal of sale proceeds is a matter that, within the overall strategy for the Region, should be for local management to decide. In most cases this means the Area Health Authority whose purpose is to advance the interests of all health services in their area, but who will also be sensitive to the needs and aspirations of individual hospitals.

1. Proposed sales (and acquisitions) of land are included by Regional Health Authorities in their annual capital estimates. Proceeds, subject to any special circumstances, can be retained by the RHA in the year of receipt to finance any category of capital spending, as the land programme as a whole and the disposal of the proceeds of sale are taken into account when approval is given to RHA's capital programmes. In 1975/76 some £100 million of NHS capital expenditure is expected to be funded from disposal proceeds.

2. RHA's are requested to take into account the interests of the area concerned in using sale proceeds, and the appropriate area Health Authority is able to arrange for such funds to be channelled to a particular district or hospital. There is no reason why land sale proceeds could not be made available direct to a hospital in circumstances where this would be appropriate (e.g. where a hospital is disposing of some surplus property). The Health Authorities are also strongly urged to have regard for the needs of the community and generally to use the proceeds for the development of these services.

28 Jul 1975
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3. However, the circumstances in which such disposal are made vary widely, and in many cases it would not be feasible or fair to divert the proceeds to a particular hospital or locality. For example, where disposal is undertaken because an area is gaining new facilities, it would not necessarily be good planning or fair for the proceeds also to be directed to that area. They might best be used to fund capital developments elsewhere in the region. Inocessarily it is expected that the use of capital allocations and sale proceeds will fit in with agreed plans for services in each area, and the disposal of sale proceeds is a matter that within the overall strategy for the region, should be for local management to decide. In most cases this means the area Health Authority whose purpose is to advance the interests of all health services in their area, but who will also be sensitive to the needs and aspirations of individual hospitals.

for Econ Pol (June 79)
'Disposal of Public Sector Trading Assets'

OO TOKYO

GR 450

SECRET
FM FCO 272034Z JUN 79
TO IMMEDIATE TOKYO
TELEGRAM NO 316 OF 27 JUNE

FOLLOWING FOR WHITMORE, PRIME MINISTER'S PARTY FROM
LANKESTER, 10 DOWNING STREET.

BEGINS

DISPOSAL OF ASSETS

THE PRIME MINISTER SAID THAT SHE DID NOT WANT ANY FURTHER PREPARATIONS TO BE MADE FOR THE SALE OF BP SHARES UNTIL AFTER TOKYO WHEN SHE PROPOSES TO CHAIR A MEETING OF E (DL) COMMITTEE TO CONSIDER THIS WHOLE ISSUE, INCLUDING THE QUESTIONS OF TIMING AND POSSIBLE ALTERNATIVES SALES. WE HAD UNDERSTOOD FROM THE TREASURY THAT THIS WOULD EFFECTIVELY RULE OUT THE OPTION OF SELLING THE BP SHARES DURING JULY. HOWEVER, THE TREASURY NOW SAY THAT, PROVIDED A DECISION WERE TAKEN NEXT WEEK, THE JULY SALE WOULD JUST BE POSSIBLE. THEY WOULD LIKE TO RETAIN THIS AS AN OPTION, ALTHOUGH THEY UNDERSTAND THE PRIME MINISTER'S DOUBTS, AND THEY ARE THEREFORE PRESSING FOR A MEETING OF E(DL) BEFORE THE END OF NEXT WEEK. THE PRIME MINISTER'S DIARY IS VERY FULL, BUT WE COULD FIT THIS IN ON THURSDAY AFTERNOON AFTER QUESTIONS. ALL MEMBERS OF E(DL), EXCEPT THE CHIEF SECRETARY, COULD ATTEND AT 1715, THE CHIEF SECRETARY'S ABSENCE SHOULD NOT MATTER SINCE THE CHANCELLOR AND THE FINANCIAL SECRETARY (WHO IS THE TREASURY MINISTER IN CHARGE OF THIS EXERCISE) WILL BE AVAILABLE. THE PRIME MINISTER HAS SAID SHE WISHES TO WORK ON HER SPEECH FOR THE CPC ON THURSDAY, BUT SHE HAS A CLEAR EVENING FOR THAT. SHALL WE CONFIRM THE E(DL) MEETING FOR 1715?

ONE OF THE POSSIBLE DISPOSALS, OTHER THAN BP, RELATES TO BNOC ASSETS. THE DISPOSAL OF THESE ASSETS IS OF COURSE INTIMATELY CONNECTED WITH THE GOVERNMENT'S FUTURE PLANS FOR BNOC, ON WHICH MR HOWELL IS PLANNING TO SUBMIT A PAPER TO E(EA) COMMITTEE NEXT WEEK. MR LAWSON HAS WRITTEN TO SAY THAT IN VIEW OF THE CLOSE LINK BETWEEN THE FUTURE OF BNOC AND THE DISPOSALS EXERCISE, MR HOWELL'S PAPER SHOULD BE CONSIDERED BY E(DL) RATHER THAN BY E(EA). THIS WOULD GIVE MINISTERS THE OPPORTUNITY TO CONSIDER THE TWO SUBJECTS TOGETHER, UNDER THE PRIME MINISTER'S CHAIRMANSHIP, AND TO COME TO A CONSIDERED JUDGEMENT ON BOTH. MR PRIOR, MR YOUNGER AND MR EDWARDS ARE MEMBERS OF E(EA) BUT NOT OF E(DL). WE WOULD NEED TO INVITE MR YOUNGER TO E(DL) BECAUSE OF HIS INTEREST IN OIL, IF THE BNOC REVIEW WERE TAKEN THERE. SHALL WE PROCEED ON THIS BASIS?

MR LAWSON HAS ALSO BEEN CONSIDERING HOW HE CAN MEET THE PRIME MINISTER'S WISH FOR A FURTHER EFFORT TO BE MADE TO FIND ALTERNATIVE ASSETS FOR DISPOSAL SO THAT THE PROPORTION OF BP SHARES TO BE SOLD CAN BE KEPT TO A MINIMUM. THE ONLY POSSIBILITY THAT HE CAN SEE AT THIS STAGE IS FOR BNOC TO SELL NEXT WORD UNDERLINED ALL ITS ASSETS TO BP, AND NOT JUST POUNDS STERLING 200 MILLION OF BNOC ASSETS WHICH MR HOWELL IS PRESENTLY CONTEMPLATING SELLING TO THE PUBLIC. BP WOULD NO DOUBT HAVE TO RAISE SOME PRIVATE FUNDS TO FINANCE THE PURCHASE, BUT BNOC'S OIL ASSETS WOULD REMAIN AS PART OF A COMPANY WITH A VERY SUBSTANTIAL PUBLIC STAKE. SO THAT E(DL) CAN CONSIDER THIS OPTION, MR LAWSON HAS ASKED THAT MR HOWELL SHOULD PREPARE A SEPARATE PAPER DEALING WITH THIS PROPOSAL FOR E(DL). I THINK THIS WOULD BE A GOOD IDEA. DOES THE PRIME MINISTER AGREE?
ENDS

CARRINGTON

NNNN

SECRET

File Econ. Policy 2512 9



10 DOWNING STREET

From the Private Secretary

27 June 1979

Dear Martin,

Disposal of Assets

This is further to my letter of 25 June on the above subject.

Contrary to the impression in that letter, the Prime Minister has not categorically ruled out a sale of BP shares in July. What she made absolutely clear was that she did not want further preparations for the sale to be made while she was in Tokyo. We understood that this, in effect, ruled out a sale in July; but I now understand that, if a decision in favour of July were taken next week, its implementation might just be possible. Accordingly we are trying to arrange a meeting of E(DL) for the Prime Minister to Chair towards the end of next week.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, including the Minister of Transport, the Attorney General, the Lord Advocate and to Sir John Hunt.

Yours sincerely,

The Lord

Martin Hall, Esq.,
HM Treasury.

12/18

SECRET



R
28/6

Treasury Chambers, Parliament Street, SW1P 3AG

27 June 1979

T Lankester Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim,

DISPOSAL OF ASSETS

The Financial Secretary has seen your letter of 25 June to the Chancellor of the Exchequer's Private Secretary in which you report that the Prime Minister would like to take the chair at a meeting of E(DL) Committee to consider the question of timing of the sale of BP shares and possible alternative sales. In the light of this the Financial Secretary is preparing a paper on disposals generally for discussion by E(DL) next week; the paper will discuss a BP sale and other disposals which might be possible this year.

One such possibility is the disposal of BNOC assets - following the Chancellor's letter to the Secretary of State for Energy of 11 June, at least £200m is contemplated from this source as a contribution towards the £1bn mentioned in the Budget speech. The disposal of BNOC assets is, of course, intimately connected with Government's future plans for BNOC, on which I understand that the Secretary of State for Energy plans to submit a paper to E(EA) Committee next week, probably Tuesday or Wednesday. The Financial Secretary thinks that in view of the close link between the future of BNOC and the disposals exercise generally, it would be helpful if the Secretary of State tabled his paper to E(DL), rather than to E(EA). This would give Ministers the opportunity to consider the two subjects together, under the chairmanship of the Prime Minister, and to come to a considered judgement on both.

The Financial Secretary has also been considering how we could meet the Prime Minister's wish, expressed in your letter of 25 June, for a further effort to be made to find alternative assets for disposal so that the proposition of BP shares to be sold can be kept to a minimum. The only possibility that he can see at this stage is for BNOC to sell all its assets to BP as the Secretary of State himself suggested in his Private Secretary's letter of 9 May. So that E(DL) Committee can consider this option in the light of the Prime Minister's comments, the Financial Secretary thinks that the Secretary of State should prepare a separate paper dealing with this proposal for E(DL), in order that its advantages, disadvantages and legal implications may be considered. He hopes that the Prime Minister will agree with this approach.

I am sending copies of this letter to the Private Secretaries to the members of E(DL) Committee, the Attorney General, the Lord Advocate and Sir John Hunt.

Yours,

Pauls

P C DIGGLE
Private Secretary

The National Security Agency has also been called upon to assist in the investigation of the activities of the Soviet Union in the United States. The agency has been particularly active in the area of espionage and the recruitment of Soviet agents in the United States. The agency has also been active in the area of the activities of the Soviet Union in the United States. The agency has been particularly active in the area of espionage and the recruitment of Soviet agents in the United States. The agency has also been active in the area of the activities of the Soviet Union in the United States. The agency has been particularly active in the area of espionage and the recruitment of Soviet agents in the United States.

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27 JUN 1979

The National Security Agency has also been called upon to assist in the investigation of the activities of the Soviet Union in the United States. The agency has been particularly active in the area of espionage and the recruitment of Soviet agents in the United States. The agency has also been active in the area of the activities of the Soviet Union in the United States. The agency has been particularly active in the area of espionage and the recruitment of Soviet agents in the United States.



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/12746/79

Your ref:

26 June 1979

See Nigel

27/6

DISPOSALS OF LAND AND BUILDINGS IN THE PUBLIC SECTOR

Thank you for your letter of 4 June proposing that Ministers concerned should carry out a quick review of the scope for selling land and buildings held by their Departments and subordinate agencies.

Since that letter, E(DL) Committee has asked me to report to them on this general subject, and my officials are in touch with others to put together a comprehensive paper, in the next week or so, setting out what is being done and what more needs to be done.

I am sure you will agree that in view of this there is no need for our colleagues to report separately at this stage in response to your letter. But of course the work needs to be pressed forward in Departments. We can then decide when E(DL) Committee considers my paper what follow-up action to take and what further progress-reports are needed. I assume that our colleagues from the main land-holding Departments will be invited to that meeting.

I am sending copies of this letter to the recipients of yours, and to Sir John Hunt.

Yes Mr
MLH

MICHAEL HESELTINE

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Parliament Street
LONDON SW1

27 JUN 1979
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CONFIDENTIAL *Don B*

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

T
25/6
25 June 1979

Dear Chancellor,

I am sorry I was absent for the meeting on disposals on 20 June, but I must express my concern on reading the minutes. I do feel that with the present energy crisis we must not be seen to be making disposals that can be interpreted as being impetuous or as giving foreigners a bigger stake in our oil.

I also think that it is vital for public opinion at home, that on all disposals we have a clear and impressive programme involving employee participation in shareholdings.

I presume that before any scheme for the disposal of BP shares is announced publicly the Cabinet will have an opportunity of giving its views on these vital political implications.

I am copying this letter to the Prime Minister, all Members of E Committee and Sir John Hunt.

Your sincerely
Peter Walker
PETER WALKER

Dictated by Peter Walker
and signed in his absence

CONFIDENTIAL

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WINDMILL PLACE, LONDON, SW15 2NU



25 JUN 1979

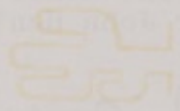
Mr. [Name]

I am sorry I was unable for the meeting on 21st June at 10.30 hours. Had I been present my contribution to the meeting would have been to discuss the various points raised by the various departments and to discuss the various points raised by the various departments and to discuss the various points raised by the various departments.

I am sorry that I was unable to attend the meeting on 21st June at 10.30 hours. Had I been present my contribution to the meeting would have been to discuss the various points raised by the various departments and to discuss the various points raised by the various departments.

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I am sorry that I was unable to attend the meeting on 21st June at 10.30 hours. Had I been present my contribution to the meeting would have been to discuss the various points raised by the various departments and to discuss the various points raised by the various departments.

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10 DOWNING STREET

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From the Private Secretary

25 June 1979

Dear Tony.

Disposal of Assets

The Prime Minister has considered the Chancellor of the Exchequer's minute of 22 June on the above subject, and I understand she spoke with the Chancellor about it over the weekend.

The Prime Minister does not dispute that "some £1 billion" of asset sales have to be found during this financial year. However, she is concerned about the timing and extent of the proposed sale of BP shares. In view of the state of the oil market at present, she believes it would be most unwise to go ahead with preparations for the BP sale in July. In addition, she feels that a further effort should be made to find alternative assets for disposal so that the number of BP shares to be sold can be kept to a minimum.

Accordingly, the Prime Minister has asked that no further moves should be taken on the sale of the BP shares until she has returned from Tokyo. She would then like to take the chair at a meeting of E(DL) committee to consider the question of timing and possible alternative sales further.

I am sending copies of this letter to Private Secretaries to members of the Cabinet including the Minister of Transport, the Attorney General, the Lord Advocate and Sir John Hunt.

Tom cur.

Tim Laker

A.M.W. Battishill, Esq.,
HM Treasury.

SECRET

DB

CONFIDENTIAL

NOTE FOR THE RECORD

*P.A. Gynn
25/6*
cc *Monitor Set*
cc: Mr. Whitmore
Mr. Lankester

DISPOSAL OF GOVERNMENT ASSETS

The Secretary of State for Trade telephoned the Prime Minister on 24 June about the disposal of assets and the forthcoming meeting of EDL.

Mr. Nott said that he, like Mr. Howell, was a renegade on this issue. He realised that the Government had to meet their objective for the reduction of PSBR but he was very worried about the timing. He did not think it right for the Prime Minister to go to Tokyo with the preparations for placing the sale of BP shares already made. The position was very fluid and had changed considerably during the past 10 days. If the Prime Minister were to return from Tokyo in a new situation, the market would know that the Government had changed their mind and this would be damaging to sterling. He could not believe that oil shares would fall in value during the next few weeks. He realised that there was some danger in waiting but it was inconceivable that the value of North Sea oil would decline.

The Prime Minister said that she had not realised that the disposal was to be tackled with such speed. Mr. Nott said that Mr. Howell's concern was that he was being hustled into selling BNOG assets just before "privatising" BNOG.

The Prime Minister said that she gathered that Mr. Nott would like her to tell the Chancellor to take no action until she returned from Tokyo. Mr. Nott agreed. He thought it would be far better to begin preparations for placement after the OPEC and Tokyo meetings. The Prime Minister agreed that she would tell the Chancellor to take no further action until after her return from Tokyo. She said that her main worry concerned the mortgage rate.

Mr. Nott said that he had no wish to undermine the Chancellor, who had a difficult job to do; he recognised that he was, however, undermining him on this issue. *Gynn.*

25 June 1979

CONFIDENTIAL



10 DOWNING STREET

THE PRIME MINISTER

Sunday, 26th June

Disposal of Assets.

Two or three colleagues have spoken to me about this matter. There are 2 points

- 1 What we sell
- 2 when we sell it.

No. or dispute - that the total we agreed to must somehow be found. Two colleagues feel that given a little more time, they could find alternative assets for sale which would be better in the long run than selling so much oil now.

Several dispute - the proposed terms and were strongly opposed here. In view of the state of the oil market at present, it seems to me most wisest to go ahead with repurchase unless this

week or next.

I have decided therefore that no
further moves should be made until we have
returned from Tokyo. Then, I will have a
meeting with the Director of Arts' sub-committee
further to consider timing and any alterations that
colleagues put forward.

Margaret Thatcher

PRIME MINISTER

c. Mr. Wolfson

Disposal of Assets

The attached minute from the Chancellor (Flag A) reports on the latest meeting of the Sub-Committee on Disposal of Public Assets. It raises one important issue - whether the Government should proceed this year with the sale of BP shares. (At Flag B are the minutes of the Sub-Committee's meeting, which set the problem out in greater detail.)

The Chancellor is counting on selling 16 per cent of the combined Government and Bank of England holding in BP: this would raise approximately £650 million and reduce the combined holding to 35 per cent. The objections to a sale this year are as follows:

- i. It would be politically difficult to explain a sale at the present time when oil supplies are short - Mr. Howell argued quite strongly on this point, I understand.
- ii. The value of the shares could well rise rapidly in the next year or two - this was a point argued by Mr. Heseltine and Mr. Nott.

The argument in favour of the sale comes straight back to the Budget arithmetic. If we do not sell these shares, then £650 million will have to be found by some other means. This seems almost inconceivable at this stage. We have gone about as far as we can on public expenditure cuts for this year; I can see no further scope for tax increases; and there is no way in which we could find alternative asset disposals. One likely item which has been mentioned to you is the sale of publicly owned property; but Mr. Heseltine has personally looked at this and is unable to produce more than £40 million this year.

/Those who supported

Those who supported the Chancellor were, naturally, the Chief Secretary and the Financial Secretary; but also Sir Keith Joseph and Mr. Nicholas Ridley (who was standing in for Sir Ian Gilmour).

The Chancellor would like your blessing for a decision in favour of going ahead with the sale. This is needed now so that the Treasury and the Bank at least have the option of carrying out the sale in July - which at present they think would be more desirable than waiting until the autumn. A final decision on timing and on the details of the sale procedures would be taken in the next week or two.

Do you agree in principle that the sale should proceed, with the timetable and procedures to be decided later? If not, we will no doubt have to go back to Cabinet to find alternative revenue savings.

As a postscript, I should add that I asked Treasury Ministers to consider the question of confining sales to the UK. This was following your comment that sales abroad would not help with the money supply. Despite this, they still seem keen on selling some of the shares abroad because of the higher prices which they would thereby get - rather than concentrating the whole sale in the UK.

22 June 1979

Handwritten notes:
of those who opposed -
can find alternative -
let them do so -
in the present, dividend -
shareholders -
of funds -
of selling -
handle the share -
price should be very high.
raise 600 -
shares if they
repay. The
value is not
not

5A



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

At the meeting of the Sub-Committee of the Economic Strategy Committee, on Disposal of Public Assets (E(DL)) on Wednesday afternoon, I undertook to colleagues that I would report to you on the present position regarding disposals in the current financial year.

2. In the Budget statement I said, following the line agreed in Cabinet on 31st May, that we intend to ensure that sales of public assets in the current financial year will amount to "some £1 billion" and that the biggest contribution to this total will come from sales of a further part of the holdings in BP. Although the statement left the content of the £1 billion deliberately vague if was envisaged that it would comprise:-

- £650m - BP shares (reducing our holding to 35 per cent including the 20 per cent disputed by Burmah)
- £100m - NEB holdings
- £30m - Land and property
- £200m+ - sales of BNOC or British Gas interests.

The commitment of principle was, of course, quite plain - and crucial to the Budget arithmetic.

3. The Secretary of State for Energy now argues that disposals from British Gas could only be achieved in the face of determined opposition from the Chairman, and feels that the policy changes we wish to see for BGC could best be achieved if we avoid a confrontation on this issue if at all possible. He would therefore look to BNOC for the contribution

/from his



from his industries, but he has pointed out that legislation would be needed and that decisions have yet to be made on policies for BNOC. He proposes therefore to include, in the paper which he hopes to bring forward to colleagues in the next couple of weeks, a discussion of the various possible options for achieving his contribution to the Budget commitment.

4. The Secretary of State for Industry is confident that NEB sales can contribute £100m. He will bring forward detailed proposals soon.

5. That leaves the main element of the commitment, as specifically identified in the Budget: the sales of BP shares. Several colleagues feel that this decision may have been endorsed in Cabinet with only limited information, and that subsequent developments in the oil supply situation could now call it into question. Although the size of our shareholding does not materially alter the security of oil supplies or the degree of Government control over company policy (since we have always stood well back from it), they feel that politically it might be difficult to explain a sale at this time. And they argue that the value of the shares may rise rapidly in the next year or two which could make the sale seem financially, as well as politically, imprudent.

6. I see some force in these arguments. But I am bound to emphasise too the strength of the political commitment which we entered into only last week to cut the PSBR by the medium of these sales. No alternative means of achieving the cut has been suggested to me.

7. If the BP sale is to take place colleagues in general feel (and I agree with this) that it should be organised so as to give as much preference as possible to employees, and small shareholders. The Financial Secretary is preparing a detailed scheme for handling the



sale if we decide to go ahead, and will take full account of these aims. He will also explore the possibility of a privately financed trust being set up to assist employees with loans to finance the purchase of shares. The Company itself have ideas for this which may fit our plans quite well.

9. There is a possible problem on timing. The Bank advise that it may well be desirable to make the sale during July to obtain the best price, and that leaves little time for preparation. If you have any strong feeling, in view of the reservations of some colleagues, that we should re-examine the arguments for the BP sale we need to do so soon. If on the other hand you feel, as I do, that we are firmly committed and that the decision should stand, the detail of the sale procedures could be looked at again in E(DL).

9. I should be grateful to know how you would like us to proceed. I am copying this letter to all Cabinet colleagues, the Minister of Transport, the Attorney General, the Lord Advocate, and Sir John Hunt.

A handwritten signature in dark ink, appearing to be "G.H.", written in a cursive style.

(G.H.)

22 June 1979

22 JUN 1979



GORDON



With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.



010.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

22 June, 1979

David Hunter

I am extremely grateful for your letter of 23rd May on methods of sale of Government equity. You are of course right that I am concerned to ensure that the chosen method ensures the maximum advantage to the Exchequer, and I welcome the suggestions you have made in this context.

However you will also understand that I am extremely concerned that the Public Sector Borrowing Requirement should be strictly controlled and in particular that my target of £8½ billion for this financial year should be met, with further reductions (as a percentage of GDP) in the years which follow. An issue of convertible bonds along the lines you suggest would not, however, reduce the PSBR but could instead be a means of financing the PSBR. Thus the scheme would be open to many of the arguments against high public sector borrowing with which I am sure you are familiar.

I have also asked my officials to examine the question of the gain which might accrue to the Exchequer if your scheme was adopted rather than if there were a direct sale. They have advised me that the net effect, taking into account the cost of the interest paid on the bonds prior to conversion net of additional dividends received and any premium which might be obtained on the equity price, could go either way.

David Hunter, Esq.,



Much would depend on the precise form of the option to convert which the Government offered.

I will of course be examining very carefully a variety of possible methods of implementing the asset sales I announced in the Budget and your letter will be a very useful input into the discussions.

A handwritten signature in cursive script, appearing to read "Geoffrey Howe".

(GEOFFREY HOWE)

22 JUN 1979

000135
87654



PRINCIPAL PRIVATE SECRETARY

cc Sir L Airey
Mr Littler
Mr F Jones
Miss Brown
Mr Lavelle
Mr Bridgeman
Mr Monck
Mr R G Ward
Mr Wicks
Mr Riley
Mr Williams
Mr Bell
Chief Cashier) B of E
Mr George)

SALE OF ASSETS BY MEANS OF CONVERTIBLE STOCKS

The Financial Secretary has seen the attached note ^{by Mr Riley} and commented:

"I entirely agree. This proposal is useless so far as this year's disposals are concerned - as my Private Secretary's note of 29 May made clear. It might just have some relevance to the long term problem of selling shares in some of the less promising nationalised industries, and will be borne in mind in that context, although I am doubtful if it will prove the best way even then."

PCD

P C DIGGLE

20 June 1979

19 JUN 1979

- MR BRIDGEMAN
2. FINANCIAL SECRETARY
3. CHANCELLOR

see memo @ end p. 1.

cc Sir L Airey
Mr Littler
Mr F Jones
Miss Brown
Mr Lavelle
Mr Monck
Mr R G Ward
Mr Wicks
Mr Williams
Mr Bell
Chief Cashier
Mr George

SALE OF ASSETS BY MEANS OF CONVERTIBLE STOCKS

The Chancellor has asked for advice on a suggestion, made to him in a letter (attached) from Mr Hunter of L Messel and Co, dated 23 May, that there would be an advantage to the Exchequer in selling Government equity holdings by issuing a 10 year gilt convertible into the equity at a later date. The Financial Secretary has also asked about schemes of this sort (Mrs Diggle's minute of 29 May).

2. A point to note immediately about such a scheme is that sale of convertible gilts for this purpose would not in itself cause a reduction in the PSBR, but rather would count as a financing transaction. The PSBR would only be reduced (assuming, as with BP, that the equity sale itself did constitute a PSBR reduction) when the shares were actually handed over.* Thus although the monetary effects of a scheme of this sort would be very little different from those of an immediate sale of the shares the PSBR effect would be delayed until the option to convert was exercised.

*see
end

3. A claim made for the issue of convertible gilts is that the shares (or the gilts) could be sold at a premium rather than at a discount in the case of direct sale of the shares. But in fact this is only likely to be true if convertibility is optional. In this case there is a chance that the investor will make a capital gain because the share price might rise above the option price, whereas if the share price fell the option to buy need not be exercised. Thus the investors would have a one-way option for which they would probably be prepared to pay. But an implication of this is that if the share price did fall the sale of shares might never occur.

4. If the conversion into shares were made compulsory within a certain period, the effect on the price obtainable by the Government is less clear cut and although a premium might be obtained this would be far

From assured. Whether or not a premium was obtained would depend, inter alia, on the length of the period during which the option could be exercised and the shorter the period the less the likelihood of a premium. In the extreme case of compulsory conversion on a fixed date in the future the sale would almost certainly be at a discount.

5. Whether the sale occurs at a discount or a premium under this scheme thus depends on the extent of additional risk taken on by the investor when buying convertible gilts rather than the shares themselves. If less risk is taken on, the sale will be at a premium and vice versa. In a world of perfect certainty about future share prices and dividends, however, there would be nothing to gain or lose by adopting the convertible gilt technique. Investors would in both cases examine the future stream of net returns available to them - in the case of a direct sale this would be the value of dividend payments and in the case of a convertible the value of interest payments initially followed on conversion by dividends - and would discount these to obtain a current market valuation. One option would yield a higher valuation than the other only insofar as the discounted net cost to the Government was higher in that case (ie only insofar as the interest payments on the convertible gilts exceeded the dividends on the shares, or vice versa). Thus in the absence of uncertainty the two methods would be equivalent as far as the cost to the Government was concerned.

6. In his letter Mr Hunter also argues that the price of the shares would be depressed to a smaller extent prior to sale if it were known that the method of sale was to be in the form of convertible gilts rather than an immediate sale. But this is likely to be only a timing effect. Investors would know that the shares would eventually be sold and that the share price would eventually reflect the increase in supply. They would take this into account when assessing the value of the option available to them when purchasing the convertible gilts and thus there is no presumption that the Government could obtain a higher price as a result.

7. There are further aspects of the method of sale of Government shares which could be described here, such as differential tax advantages of the different methods, but nevertheless our view remains that the method of sale proposed by Mr Hunter would only benefit the Exchequer insofar as the risk taken by investors was reduced, and in order to ensure such a reduction it would be necessary to present them with a wide range of options, and in the extreme case an option not to purchase.

In this case it could not be guaranteed that the sale of shares would actually take place within a reasonable period, and although this would not have significantly adverse monetary consequences, the gain to the PSBR could also not be guaranteed. * (see end)

8. Adoption of the technique suggested by Mr Hunter cannot therefore be recommended for the sale of assets in the current financial year, given that the Government envisages asset sales as a means of cutting the PSBR. The advantages of such a scheme in terms of increased return to the Exchequer are in any case somewhat doubtful. Accordingly, I attach a draft letter along these lines which the Chancellor might send to Mr Hunter.

C. J. Riley.

C J RILEY
19 June 1979

I entirely agree. This proposal is useless so far as this year's disposals are concerned - as my Private Secretary's Minutes of 29 May made clear. It might just have some relevance to the long term problem of selling shares in some of the less promising industrial industries, or will be borne in mind in that context, although I am doubtful even if it will prove to be very far from zero.

I agree

J. H. B.

19:vi:79

* Latest advice suggests that it could well be the case that the PSBR is not reduced even when the shares are handed over.

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TIP COPY CH/EX ACK LAY

CH/EXCHEQUER <i>29/5</i>	
REC.	29 MAY 1979
ACTION	<i>Mr Wicks</i>
COPIES TO	<i>PS/BST</i>

Sent 29.5 D-F

23rd May, 1979.

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
 Treasury Chambers,
 Parliament Street,
 LONDON SW1P 3AG.

Dear Geoffrey,

Following recent comments about the probable sale of various equities held by the Government, I would like to make a "humble submission" as to how this can be done at greater advantage to the Exchequer.

A major equity sale generally produces an anticipatory fall in the market and, even then, the sale has to be made at a discount to the price on the day of announcement (i.e. B.P. about 5% in 1977). Should you offer a 10-year Bond convertible into the equity, I would submit you would get a 10-15% premium depending on coupon and, if this form of sale was known in advance, anticipatory selling would not be so great (+ 5% ?).

I would further suggest that the convertible be available in Bearer form (like War Loan) so that the coupon on the Bearer could be paid free of tax, thus creating an avalanche of foreign applications. This should cause no problems to the Revenue as U.K. residents must hold their Bearer stocks with authorised depositaries who are responsible for withholding tax.

WJK

4

PAGE TWO.

There are many variations on this theme with regard to coupon and conversion premium, etc., but I am confident that any sensible one would result in a better price to the Government.

I also enclose a memorandum on the Mexican Oil Bonds which have provided the Mexicans with some very cheap money. This could be repeated here as long as there is a general expectation of rising oil prices and one has oil. Again, there are many variations, but such a deal would make lending money to the Government a lot more attractive and thus bring in many new lenders. The laws of supply and demand being what they are, greater supply of lenders would lead to unchanged or lower demand from the borrower being satisfied at a lower price.

Yours,

David Hunt

Encl.

MEXICAN PETROBONDS--PROTECTION FROM HIGHER OIL PRICES

Iran's revolution and subsequent curtailment of petroleum exports has catapulted world crude oil prices. Under the Shah, Iran supplied only 10% of the free world's oil, yet the disruption of this flow has produced global repercussions that point up the slender margin of safety between oil production capacity and demand. The Khomeini-appointed government has resumed production and is shipping oil at about two thirds the pre-revolution rate; but should any other major petroleum exporter reduce production for a prolonged period or Iran shut off its oil entirely again, we would see another oil price spiral.

Economies and financial markets at home and abroad have proven to be exceedingly sensitive to higher petroleum prices. One government, the Mexican, has developed a financial instrument to enable holders to profit from higher oil prices: Mexican Petrobonds, which derive their value from gains on a fixed amount of oil over 2 different 3-year periods, one starting April 29, 1977 and the other April 29, 1978.

In this report, we examine the outlook for oil prices and analyze Mexico's petrobonds, and their investment potential, based on assessed oil price trends. We conclude that Mexican petrobonds represent a good hedge against a sharp future rise in world oil prices.

THE OIL PRICE OUTLOOK

On March 27, 1979 OPEC established a new \$14.54/bbl. floor price for Saudi Arabian light marker crude. This is the price the Organization had earlier said would go into effect in Q4 79. The OPEC ministers also announced they would allow member countries to add a surcharge to the posted price, the extra amount to depend on each country's perception of market conditions. To maintain a tight market and uphold the price boost, the oil ministers asserted they were limiting production to levels that prevailed before Iran stopped shipping oil to consuming nations.

In Q4 78, the official price of oil on world markets ranged from \$12/bbl. for Arabian heavy to \$14.20/bbl. for light, sweet, low-sulfur crudes; Arabian light marker crude cost \$12.70/bbl. In Q1 79, until now, the corresponding price range was \$13.64/bbl. to \$16.20/bbl. Saudi marker crude, meanwhile, cost \$13.34 bbl.--although Saudi Arabia demanded \$14.55/bbl. for output beyond its 8.5 MM b/d self-imposed production ceiling. These prices included OPEC's scheduled 5% yearend 1978 price boost, plus unilateral price adjustments by various OPEC members, reflecting tighter market conditions. During the present quarter, the price of about one-third of OPEC's oil exports was affected by these adjustments, the average increase being about \$1.20/bbl. beyond the originally scheduled 5% rise. As Q1 progressed, a number of countries tried to divert output to the spot market where prices easily out ran official figures.

OPEC's new prices range from \$14 to \$18 a barrel. We have not heard from all regarding their surcharge policies, but indications are that F.O.B. costs of various countries' crude oil prices will be as follows:

April 19, 1979

Louis J. Ganz
(212) 437-7302

Table 1
 Projected F.O.B. Costs of Crude Oil Exports
 to the U.S.*

\$14.50-15.50/bbl.	\$15.50-16.50/bbl.	\$16.50-17.50/bbl.	over \$17.50/bbl.
Saudi Arabia (14.5)	Venezuela (8.1)	Other OPEC (2.8)	Algeria (8.5)
U.A.E. (5.0)	Indonesia (7.0)		Libya (8.5)
Mexico (4.1)	Canada (6.0)		Nigeria (11.7)
	Other Non-OPEC (23.7)		

*Parenthetical material indicates % of total U.S. crude oil imports that came from each country, excluding Iran, during the first 11 months of 1978.

According to the data above, the weighted-average cost of U.S. imported crude oil, before freight and insurance, will be almost \$16/bbl., compared with a 1978 average price of less than \$13.50/bbl. This is an increase of 18-19%.

Although Iran is producing oil again, the Khomeini appointed Government, even if it wanted to, could probably not restore exports to the pre-revolutionary 5 million b/d level, for technical reasons, including damage to production facilities during the political upheaval and the absence of evacuated foreign technicians. The Ayatollah and his spokesmen, moreover, have declared they might deliberately restrict oil production and raise prices. At best then, oil should remain in tight supply for the rest of this year, with OPEC's posted price remaining at \$15.74-- up 24% from the Q 4 '78 level.

That Iran's government will stabilize and oil production be maintained at current levels is, of course, anything but certain. The country remains torn by factions, making any predictions suspect. However, if Iran exports little or no oil between H2 '79 and H2 '80, our analysis and spot market trends indicate OPEC's official price will accelerate. Spot-market marker crude prices hit a record \$26/bbl. in March, versus a \$13.34 posted price.

Data Resources Inc. has developed two model simulations for Iranian oil output, based on different assumptions:

- Production resumes near term, to the extent oil is exported in H2, the quantity approximating a 3.5MM b/d rate in 1980 and 1981.
- There is no production this year. Production resumes later, but exports are restricted to 1.5MM b/d.

Below are summarized results of the two simulations:

Table 2

	1977	1978	Partial Cutback			Permanent Cutback		
			1979	1980	1981	1979	1980	1981
Million B/D								
World Demands (Under Normal Conditions)	50.0	51.7	53.3	55.1	56.8	53.3	55.1	56.8
Non-OPEC Supplies	19.4	20.3	21.5	22.0	22.9	21.5	22.1	23.1
Available OPEC	31.9	29.9	29.2	32.1	32.3	28.7	30.3	30.6
Iran	5.7	5.1	1.5	4.2	4.2	1.0	2.2	2.2
Saudi Arabia	9.4	5.1	1.5	4.2	4.2	1.0	2.2	2.2
Other OPEC	16.8	16.5	18.2	18.4	18.6	18.2	18.5	18.8
Inventory Change/Shortfall	1.3	-1.5	-2.4	-1.0	-1.4	-3.1	-2.7	-3.1
Price (\$/bbl)			\$14.50	\$16.59	\$16.80	\$16.95	\$18.90	\$22.65
Change in Price From Base			\$ 0.53	\$ 1.20	\$ 2.30	\$ 0.98	\$ 3.62	\$ 6.15
Billions of Dollars Incremental Revenues to OPEC			\$ 5.4	\$12.2	\$23.6	\$ 9.9	\$18.3	\$30.6
Iran Oil Revenue (Total)			\$ 4.2	\$21.0	\$24.0	\$ 1.6	\$10.3	\$12.4

In the first and more feasible partial-cutback case, the major consuming nations should be able to withstand the oil shortfall without serious disruptions. Prices would move considerably higher to clear the world oil market, but general rationing would be unnecessary. In the second or permanent cutback case, importing nations would suffer significant dislocations, and prices would climb to an average \$19/barrel in 1980 and \$22.65/barrel in 1981. Even at these price levels, demand would exceed supply, and the U.S. and other large consuming nations would need to ration oil.

If Iran exports little or no oil in H2, the official OPEC marker crude price will rise to \$18-19/barrel within the next 6-12 months, based on DRI's analysis and spot market trends. If Iran resumes oil exports at its previous daily rate of 5MM barrels, world oil prices would fall, following price adjustments consistent with DRI's simulation data. In any case, an OPEC price adjustment from the yearend posted level of \$12.70/barrel to \$19/barrel would represent nearly the same absolute-dollar change as occurred at the end of 1973.

The most prevalent fear is of another Iranian oil shortfall; however, any production curtailment, whether due to accident or design, amounting to 2 million or more barrels per day, could activate another petroleum price increase.

MEXICAN PETROBONDS

In the last 2 years, the Mexican Government issued two bond series giving holders a claim on the price appreciation of a fixed quantity of Mexican oil. The series, totaling 2 billion pesos each (over \$85 million, at current exchange rates) and issued separately on April 29, 1977 and April 29, 1978, mature 3 years after the issue date. Holders get:

- A 10% annual yield, net of Mexican taxes, payable quarterly in pesos. (The bonds pay 12.66%, which, after Mexican withholding taxes, amounts to a 10% yield.)
- The difference, on a pro rata basis, between the purchase of 2 billion pesos' worth of Mexican petroleum at the time of the bonds' issuance and the oil's sale during the 1st 25 days of the April preceding maturity, at a price equalling the average crude oil price received by Pemex (Mexico's State-controlled oil company), less the guaranteed minimum yield (10% per year times 3 years +30%) that holders have received over the life of the bond.
- A guarantee from the Mexican Government that it will pay the full nominal or face value of the bond at maturity, even if the oil price falls below the issue-date level.

Each 1000-peso petrobond is backed by a fixed quantity of Mexican crude oil. The amount of crude oil related to each bond depends on (1) the U.S. dollar price of Mexican crude oil and (2) the dollar-peso exchange rate at the time of issue. On April 29, 1977, oil cost \$13.35 per barrel*, and the exchange rate was 22.4 pesos for 1 dollar. Each 1000-peso bond in the April 1977 series is therefore entitled to the following amount of oil:

$$\frac{1000 \text{ pesos per petrobond issued } 4/29/77}{\$13.35/\text{barrel} \times 22.40 \text{ pesos/dollar}} = 3.344 \text{ barrels}$$

*The grade of Mexican crude oil supporting the petrobonds sells at a premium to the grade of Arabian light used by OPEC as the posted or official price.

Applying the same formula and oil price but a slightly different peso dollar rate, the April 1978 1000-peso bonds have claim to 3.296 barrels of oil.

WHAT HAPPENS WHEN OIL PRICES RISE?

Holders at redemption are guaranteed the face value of the petrobonds (1000 pesos), plus the amount by which appreciation in the oil price and dollar exchange value exceeds 30%.

Following is a simplified dollar rate-of-return calculation for the series of bonds maturing April 1981 in which we assume that (1) the average price received by Mexico for oil in April 1981 is \$20/barrel and (2) the peso-dollar exchange rate stays at 22.8 pesos to the dollar.

Each 1000-peso bond costs \$43.86:

$$\frac{1000 \text{ pesos}}{22.80 \text{ pesos/dollar}} = \$43.86$$

If the price of Mexican oil goes to \$20/barrel by April 1981, the holder at redemption will receive:

$$3.296 \text{ barrels} \times \$20.00/\text{barrel} \times 22.80 \text{ pesos/\$} = 1502.98 \text{ pesos,}$$

less 300 pesos for the portion of the oil price rise already received as quarterly yield payments, equal to 1202.98 pesos or \$52.76.

$$\frac{1202.98 \text{ pesos}}{22.80 \text{ pesos/\$}} = \$52.76$$

Combining this \$52.76 with the 25 peso (\$1.906) quarterly yield payments over the 3-year life of the bond affords an investor a 16.7% return.

The faster the price of oil rises during the life of the petrobond, the higher the payment at redemption and the investor's dollar return.

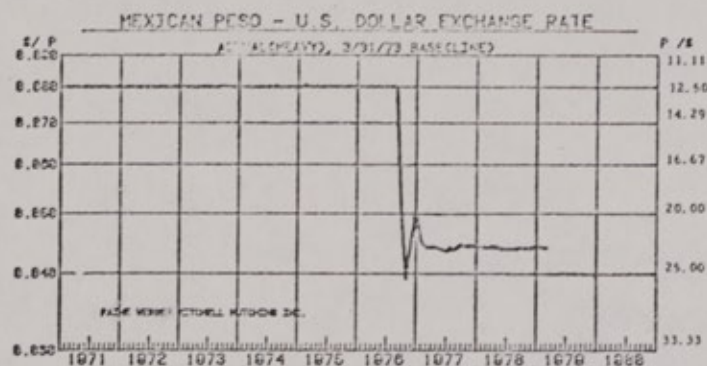
INFLUENCE OF THE PESO-DOLLAR EXCHANGE RATE

The influence of the peso-dollar exchange rate on the petrobond's return to U.S. investors is more complex. If the peso depreciates relative to the dollar, the dollar value of both the quarterly yield payments and repayment of the 1000-peso principal declines; however, the decline can be more than offset by a decline in the dollar value of the 300-peso deduction from the portion of the oil price rise already received in the form of the quarterly yield payments.

The peso-dollar exchange rate has been fairly stable since early last year, when the first series of petrobonds was issued. The peso exchange rate in April 1977 was 22.4 pesos/dollar; the current rate is 22.8 pesos/dollar.

Table 3

Since Early 1977 the Peso-Dollar Rate Has Been Stable



Over the long-term, exchange rates tend to reflect the relative inflation rates of the countries under consideration. The Mexican inflation rate, as measured by the wholesale price index, is expected to average under 15% over the next 2 years; the corresponding value for the U.S. is likely to fall in a range of 7 to 10%. The average rate of depreciation of the Mexican peso relative to the U.S. dollar over the next 2 years should not exceed 5% per year.

Both petrobond series are selling at \$100-101. Until now, neither issue has sold below \$100 or par value, because the Mexican Government supported the price by buying all bonds offered at \$100. Although the petrobonds maturing in 1981 have a claim on slightly less oil, they are preferred to the earlier series, because they are selling at nearly the same price and provide an extra year's benefit from escalating oil prices.

Effective April 1 Pemex boosted its oil export price to \$17.10 per barrel. This compares with a per-barrel charge of \$14.10 in Q1,79 and \$13.10 per barrel in late 1978. It also widens the premium of Mexico's oil over the current OPEC marker price to 17.6% compared with a spread of only 6-8% last year. Mexico will be able to maintain the higher premium because of the low transportation costs of oil to the U.S. which takes 80% of Mexico's oil exports.

The following table indicates the petrobonds dollar-return prospects, assuming a reasonable range of possibilities for oil prices and peso-dollar exchange rates for the preferred maturity.

Table 4: Return Possibilities for Petrobonds Maturing April 1981

Average Annual Rate of Change of Peso-Dollar Exchange Rate	Average Per Barrel Price Of Mexican Oil in April 1981				
	\$17.30	\$18.00	\$19.00	\$20.00	\$25.00
5%	14.3%	16.7%	18.7%	21.1%	31.5%
0	10.0	11.8	14.3	16.7	27.0
-5	5.7	9.0	10.0	12.4	26.5
-10	1.6	3.4	5.8	8.1	18.2

Other kinds of high quality, fixed-income Mexican peso investments with maturities of a year currently yield about 14%. Based on our calculations, Pemex's oil price would have to approach \$20 for petrobonds to be appealing. This price is plausible by April 1981, in our opinion. We believe investors should be aware of Mexican petrobonds as a hedge against oil price escalation.

Paine Webber Mitchell Hutchins International can facilitate trading in petrobonds and other Mexican securities.

April 19, 1979

Louis J. Ganz
(212) 437-7302

May 18, 1979

Petrobonds (100)

Petrobonds are Mexican bonds indexed to the price of oil. They offer a 10% yield in Pesos through the maturity date (April, 1981) and a free call on any rise in the price of oil for the next two years. The bonds were issued in April, 1978 by Financiera Nacional, a government sponsored institution. The bonds have a face yield of 12.6%, but there is a mandatory 21% withholding tax by the Mexican government which reduces the yield to approximately 10%. The withholding tax, however, can be directly set off against U.S. tax for a tax-paying account. When the bonds were issued, the price at which Pemex was selling oil was \$13.40. The first 30% improvement in the price of oil has no effect on the redemption price of the bonds. Thereafter, the redemption price is directly indexed to the price at which Pemex sells its oil. The bonds are currently trading about par and the price Mexico is now getting for oil is \$17.10 a barrel. A 30% improvement over the original price for oil would be \$17.42; therefore, if oil goes up by 32 cents a barrel any time over the next two years, these bonds will become indexed to any further rise in oil prices and, in effect, indexed to the dollar, as it is the currency in which oil is quoted. There are 3.29624 barrels of oil per one thousand Peso bond and it is the dollar value of this oil which constitutes the redemption price.

\$88 million of Petrobonds were originally issued and the liquidity in the Petrobond market is considered quite good. We are told that it is not difficult to buy and sell \$1 million worth in one day, significant volume for Mexico.

With an OPEC meeting coming next month, the chances for a price rise in oil appear to us to be reasonably good. Although Mexico is not a member of OPEC, Pemex has traditionally followed the OPEC price and we would anticipate that any price rise by OPEC would be mirrored in the Pemex price.

For clients interested in purchasing Petrobonds, we are acquainted with the technical details of settlement, as well as having facilities for converting dollars into pesos.

Ezra P. Mager



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

21 June 1979

Nigel Lawson Esq
Financial Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON
SW1

Dear Nigel,

DISPOSALS OF LAND AND BUILDINGS IN THE PUBLIC SECTOR

Thank you for sending me a copy of your letter of 4 June to Michael Heseltine. I now understand that he has taken the lead in this, and that a group of officials under DOE chairmanship has met to initiate a paper for submission to Ministers. I take it that this overtakes the need for a considered reply to your letter, and that our action should now be to consider the officials' paper when it is ready.

Copies go to the recipients of your letter.

W. [unclear]
Patel

72 JUN 1979



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SECRET



3B

Treasury Chambers, Ballroom Street, SW1P 3AA

19 June

Sir Keith Joseph KBE MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
SW1E 6RB

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377

SALE OF PUBLIC SECTOR ASSETS

My letters of 15 May to you and other Secretaries of State who sponsor major nationalised industries were mainly concerned with disposals in the current financial year, but also referred to disposals in later years. It would now be helpful if you could give me an up-to-date view of your plans or expectations for 1980/81 and later years, on the assumption that £1 billion mentioned in the Budget Speech is realised in the current year on the lines the Chancellor has indicated.

I realise that in some cases no firm decisions or views have yet been taken, though I hope it will be possible to provide definite statements during July. Meanwhile I need to have your present views by this month. The reason is that the Chief Secretary will need to know roughly what sums we can count on for disposals in deciding what overall reductions in the inherited public expenditure plans he should propose to Cabinet early in July.

I should be grateful if your replies could cover the ground set out in the Annex for each nationalised industry or similar public corporation (including in the case of energy the AEA and its subsidiary companies), and if they could reach me by Friday 29 June at the latest or earlier if possible.

I am sending copies of this letter to John Nott, David Howell and Norman Fowler; and also to Michael Heseltine and George Younger who were not initially involved in the 1979/80 disposals exercise.

NIGEL LAWSON

CHECKLIST FOR EACH NATIONALISED INDUSTRY OR SIMILAR PUBLIC CORPORATION
WHICH ARE CANDIDATES FOR DISPOSAL

a) Estimates for the proceeds in 1980/81 and later years of
selling shares or assets:

i. in the whole business

ii. in particular existing or new subsidiaries or activities
which form part of the main line businesses

iii. in non-main line businesses

iv. land or buildings.

(These estimates should not generally include proceeds already counted
for public expenditure Survey or nationalised industry Investment and
Financing Review purposes. But where there is a risk of double-counting,
its extent should be indicated.)

b) The likely form this will take eg 100% or 49% of the shares and
the degree of control the Government will retain. This information will
make it possible for the Treasury to estimate whether the proceeds
would be a public expenditure saving in 1980/81 or reduce the PSBR (as
opposed to financing it).

c) A broad description of the factors which have determined the size
and form of the proposals and of the assumptions and methods on which
the estimates of proceeds are based.

d) The need for legislation.

Hansard Extract (Lord Monson) 19.6.79

Finally, I should like to commend for your Lordships' attention an article on the City page of the *Daily Mail* of 14th June, which set out a scheme devised by a leading merchant banker whereby the Government would offer for sale to the public not BP equity—in other words, BP ordinary shares—but a new BP convertible loan stock with a low initial coupon. It is claimed that this would bring in an extra £73 million to the Exchequer, over and above what would be received if BP equity were to be offered instead, as has been proposed. Without going too much into the figures, the case seems to me unanswerable and I hope that the Chancellor will examine this proposal very carefully, as no doubt he intends to do.

The Chancellor has taken a brave gamble and I am sure that we all wish and pray that it works out. I still think that it would have been better if the proposals had been framed so as to attract rather greater popular support. My own sound-



Econ Pol VLB

10 DOWNING STREET

From the Private Secretary

~~B/F 26-6-79~~
18 June 1979

Dear Don,

Thank you for your letter of 15 June, setting out the current practice on the disposal of surplus land in the N.H.S. estate.

The Prime Minister is interested in this subject, and has noted that present arrangements seem to act as a disincentive to hospitals in respect of the disposal of land. I understand that this is because the proceeds do not accrue to the hospital which held the land, but to the regional or district health authorities.

You reported that the current procedures are already under review by your Secretary of State, in the context of the general study on the scope for disposing of Government property and land. I would be grateful if this aspect could be considered in the review, and it would be helpful if I could have your comments on the point raised by the Prime Minister in advance of the further work. Could you please let me have something by 26 June?

Yours ever
Mike Pattison

Don Brereton, Esq.,
Department of Health and Social Security.

VLB



10 DOWNING STREET

PRIME MINISTER

At the media meeting this morning, you drew attention to the procedures under which hospitals may dispose of associated land holdings. You suggested that these deprived the hospital whose land might be sold from benefiting adequately from the proceeds, and therefore froze landholdings which could be put to good use.

I attach a note from the DHSS describing the current system, and explaining that it is under review.

Would you like me to draw Mr. Jenkin's attention to your views on the weaknesses of the present system?

15 June 1979

Yes please. What
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feels a therapy
unacceptable by
me.

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*Mike Pattisson Esq
Private Secretary
10 Downing Street

15 June 1979

Dear Mike,

As requested in your letter of 15 June I attach a note about the present principles relating to disposal of land held by the National Health Service. The Secretary of State has instituted already a review of the procedures in particular the time taken to agree land disposal and has made it clear that he attaches great importance to the general study being undertaken on the scope for disposing of Government property and land.

Yours sincerely
D Brereton

D BRERETON

NOTE ON NHS LAND HOLDINGS

1. The NHS estate consists of some 52,000 acres, of which an estimated 1,000 acres represents the land occupied by the services taken over from local health authorities in 1974 (clinics, health centres, ambulance stations in the main, with supporting residential and office units). This is very much less than the NHS occupied when it was set up in 1948, some 20,000 acres, mostly farm land or the extensive sites of TB, infectious diseases and convalescent establishments, having been disposed of, mostly in the late 60s.

2. There is a constant reshaping of the land holding. Some new land has to be acquired, for sites for new hospitals or extensions of existing hospitals selected for development, or for health centres in urban areas, although as far as possible land already vested in the Secretary of State is made use of. Rationalisation of the hospital service is continually throwing up the sites of old hospitals in urban areas, or various small hospitals no longer needed or viable and not selected for community hospital development. There is also a constant turn-over in residential accommodation, to concentrate what is provided in the most convenient locations and to get rid of lower standard units. On the whole the ratio of disposals to acquisitions is about 3 or 4 to 1.

3. Since 1974 disposals have been steady, as the following table illustrates:-

	In hand for disposal at 31 March each year excluding sites of under 1 acre	Disposals completed in financial year (acres)	Sale proceeds realised in financial year £000s
1974/75	2,455	550	8,256
1974/76	2,137	300	1,922
1976/77	2,733	387	2,479
1977/78	2,727	489	4,443
1978/79	3,078	626	7,835 (estimate)

4. Land transactions were devolved to Regional Health Authorities in 1974 within a framework of rules designed to ensure compliance with government land policy and preserve accountability. Estimates of the

/value

value of disposals are made in advance and figures entered as appropriations in aid in the Supply Estimates. The introduction of cash limits has simplified the accounting, enabling all sale proceeds to be added as supplementary capital allocations to the regions concerned as soon as the transaction is completed.

5. It is for the RHA to ensure that the additional capital is used to the best advantage. Factors to be taken into account are whether the sale proceeds arise because a new development has been completed, or from an identification of surplus land at existing hospitals or through rationalisation of services and so of land holdings. But in general the sale proceeds would go back, at least in substantial part, to the area health authority concerned, subject to negotiation on the merits in each case.

been

6. Health authorities have asked to treat land as a valuable asset and the NHS planning system requires all assets to be regularly reviewed, with the intention of identifying any that are no longer required and bringing them forward for disposal. The initiative lies with the health authorities as part of their management functions. The table above shows that the planning reviews are continually bringing land forward for disposal.

7. About half the estate is at hospitals for the mentally ill or the mentally handicapped, and at many of these the buildings are dispersed over a considerable portion of the site. Provision is needed for a reasonable amount of grounds for amenity or therapeutic purposes, but the operation of farms or market gardens (which was standard practice at such hospitals when they came into the NHS in 1948) is continually diminishing. Where farms are operated by tenant farmers, often as an adjunct to neighbouring farms, the land is farmed effectively, the rent, fixed by the District Valuer, accruing to the NHS. There is however a steady move to dispose of such farms entirely, at a suitable point in the tenancies, provided a purchaser can be found to meet the DV's recommendation. Three such sales of farmland, of 89, 138 and 171 acres, were completed in 1978/79.

8. New procedures. The position described above has been achieved under the existing procedures. The dropping of the requirement to notify other Government Departments and local authorities before proceeding to auction will simplify and expedite procedures. There will still be a need to identify areas of surplus land carefully so that disposal produces optimum advantage, and to have regard to market conditions on the advice of District Valuers, in order to realise full market value.

9. Knowle Hospital, Fareham, Hants. It is the policy of the Wessex RHA to phase out hospital farms and market gardens, and several have been discontinued recently. But they leave the initiative to the Area Health Authority. Knowle Hospital is a mental illness hospital occupying 255 acres. Approximately 200 acres is farmland, providing therapeutic employment to 70 patients. The AHA have no plans to close down this activity.

6/15/679.

file

15 June 1979

We spoke this morning about the present principles governing the sale of land held by hospitals. I would be grateful if you could let me have a note on this later today, together with information about any intention your Secretary of State may have to review the procedures.

MAP

Don Brereton, Esq.,
Department of Health and Social Security.

DB



Treasury Chambers, Parliament Street, SW1P 3AG

15 June 1979

N.B.P.S.
T Lancaster Esq
10 Downing Street
LONDON
SW1

Dear Sir,

DISPOSAL OF PUBLIC SECTOR TRADING ASSETS

I regret Paula Diggle's letter of today's date was not classified secret as of course it should have been. I would be grateful if you and other recipients would treat it as such.

Copies of this letter go to the Private Secretaries of the other members of E(DL) and to Martin Vile.

Yours Sincerely,

Aidan Flynn

A O'FLYNN

15 June 1979

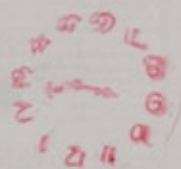


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18 JUN 1979

SECRET



Eca
RBL 3

Treasury Chambers, Parliament Street, SW1P 3AG

15 June 1979

T Lankester Esq
10 Downing Street
LONDON SW1

cc M Wolfson

Morgan

Dear Tim,

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15/6

DISPOSAL OF PUBLIC SECTOR TRADING ASSETS

Thank you for your letter of 5 June. The Financial Secretary has very much in mind the different monetary effects of selling different types of asset, and in different ways. He will certainly ensure that the point is taken into account in future Ministerial discussions.

The greatest beneficial effect on the control of the money supply will be gained from sales of those types of asset which are not a close substitute for gilts and which are likely to be bought by domestic companies or institutions who do not normally hold significant quantities of public sector debt. Sales of interests in oil fields to UK oil companies would fall in this category. The benefit of domestic sales of BP shares is probably much less, because they will be taken up to a significant extent by Pension Funds and Life Offices, crowding out other purchases of equities or gilts. As you say, that benefit will in turn be somewhat greater than that from sales abroad, but not all that much. In deciding on the balance between domestic and external sales it will be necessary to balance the relative monetary effects against the prospective sale price and other factors.

I am sending copies of this letter to the private secretaries of the other members of E(DL), and to Martin Vile.

Yours,

Paula

PRIVATE SECRETARY

SECRET



115 JUN 1979

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Department of State, Bureau of Consular Affairs

Washington, D.C.

U.S. DEPARTMENT OF STATE
BUREAU OF CONSULAR AFFAIRS
WASHINGTON, D.C. 20520

STATEMENT OF PUBLIC WORKS TRAINING ACTIVITY

This report is prepared in accordance with the provisions of the Public Works Training Act of 1964, as amended. It provides information on the activities of the Bureau of Consular Affairs in carrying out the Act. The information is presented in the following categories:

1. General information on the activities of the Bureau of Consular Affairs in carrying out the Act. This includes information on the number of public works training courses conducted, the number of participants, and the amount of funds expended. This information is presented in the following table:

A summary of the activities of the Bureau of Consular Affairs in carrying out the Act is provided in the following table:

How a BP convertible would save us £737m

TODAY I bring a present for a good Chancellor. I can offer Sir Geoffrey Howe a wholly painless way to save £737 million.

It begins with his declared intention to raise £1,000 million this year by the sale of State-owned assets. For most of this, he will have earmarked the Government's shareholding in British Petroleum.

Indeed brokers Phillips & Drew, looking at the limited choices open to him, think he will need to sell £875 million to £900 million worth of BP shares.

The BP share price has seen this coming. It fell 38p yesterday to £11.60 and is now 86p below its high point for this year.

Montagu Plan

What sort of discount would persuade the market to swallow £875 million of BP shares, only two years after digesting the 78 million shares sold by the last Government?

Good judges tell me that the shares would have to be offered for as little as £9.25 or £9.50. But let me make the

The

PATRICK SERGEANT COLUMN



more favourable assumption that they could be sold at £10, meaning a sale of 37,500 shares. That is nearly a quarter of those in issue and almost a half of the Government's holding.

The nation would be selling its shares for £140 million less than the present market price.

Gilt-edged

Cannot financial ingenuity do better than this? Surely the City has an answer?

Indeed it has—from the astute mind of David Montagu, chairman of Orion Bank. I asked Mr Montagu how this sale ought to be handled and up he came with the Montagu Plan. It's a winner.

The Government (says Mr Montagu) should sell the shares, not directly, but by offering a new Government loan stock, convertible into BP shares.

Mr Montagu suggests a twenty-year

87,500,000 shares. It would make, not a loss of £140 million on the present price, but a profit of £297 million.

That is a turnover of £437 million. And to that figure we must add the saving on interest payments—the Government borrowing at 6½ per cent. Instead of raising the money by a conventional tap stock and paying, on present form, 12½ per cent.

That, on £1,000 million for five years, is another £300 million. Total saving: £737 million.

Good for shares

What's more, Sir Geoffrey wants to get on with it. This is a splendid time to sell BP shares with profits zooming up to £1,000 million, or so, this year; the dividend well able to go up by markedly more than half; oil scarce and dear and BP with vast quantities of it around the world.

At the moment, the market is overwhelmed with the prospect of the Government selling a quarter of the BP shares in one stab.

Remove this fear with the Montagu Plan and BP would be £13 before Sir Geoffrey could say: 'Give Orion the issue to handle and Patrick the introductory fee.'

loan stock which, for the first five years of its life, would pay interest at 6½ per cent.

It would carry the right to convert into BP shares at, say, £13 in 1980. The conversions price would go up at a pound a year, reaching £17 in 1984. That would be the last chance to convert: the interest would then come into line with that on other Government stocks of the same maturity.

6½ pc coupon

A sterling and a dollar version of the stock should be offered. Mr Montagu believes that the two would be welcomed the world over. On the terms he suggests, the Government could raise £1,000 million and find its issue comfortably oversubscribed.

Transformation scene! Assume an average conversion price of £15 a BP share—half-way up the scale. Then, if the Government still wanted to sell



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILBARK LONDON SW1P 4QT
01 211 6402

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PPS

Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
HM Treasury
Whitehall

// June 1979

See below

Thank you for your letter of 7 June.

As I have said, I am anxious to do all I can to help you by one means or another. I must repeat that I can give you no categorical assurance on what can be done in 1979-80, and the figure of £200 must therefore remain your assumption.

Since writing my letter of 6 June, we have had Michael Havers letter setting out the Law Officers' views that legislation would be required if disposals by BGC or BNOC are to be carried through by means of a direction on a basis which is legally sound. This opinion must reinforce caution about securing the proceeds of sales within 1979/80. But you can be sure we will do our best.

I am sending a copy of this letter to the Prime Minister.

D.A.R HOWELL

Law

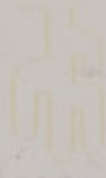
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CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 June 1979

In reply

LAND DISPOSALS

Thank you for your letter of 6th June.

I am grateful for your offer to seek to achieve land disposals of £40 million in the current financial year, and I have taken this into account in my Budget arithmetic.

I am copying this letter to the recipients of yours.

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', with a large flourish above it.

(GEOFFREY HOWE)

The Rt. Hon. Michael Heseltine, MP

RECEIVED
- 7 JUN 1979
MINISTER'S OFFICE



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7th June, 1979

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Der Ken,

REVIEW OF QUANGOS

Your letter of 17th May referred to the Cabinet's decision that Ministers should submit reports on the "quangos" for which they are responsible by 7th June. This letter deals with nationalised industries (category (a) in your letter), apart from BNOG (which the Department of Energy will cover in their reply) in view of the Chancellor's responsibility for policy on nationalised industries. It also covers BP and certain of the commercial companies in which Government has a shareholding. Other bodies in this latter category will be dealt with in sponsoring Ministers' replies. I shall be writing to you separately about "Treasury Quangos" such as NEDC.

A reduction of nationalised industries and other quangos, as defined in your letter, will of course be achieved by the decision the Government has already taken in the context of the Budget to raise revenue from disposals in the current year. This will involve, among other things, a reduction in the Government's shareholding in BP and in the NEB's shareholding in manufacturing industry.

Further reductions of the public sector will be achieved by disposals in the longer term. Ministers will be discussing Sir Keith Joseph's paper on nationalised industry policy including general policy questions on disposals on 21st June and the Cabinet has commissioned a review of the options for disposals after the current financial year of shares in nationalised industries and other public corporations or of their assets including land. This will cover Government holding of BP shares and shares in the Suez Finance Company in addition to the bodies mentioned in the Annex to this letter. The Annex, which has been supplied by sponsor departments, contains their comments on the state of the work they have in hand.

/I am

12/7/62
4857
K. Stowe, Esq., CB



I am copying this letter to the Private Secretaries of
Cabinet Ministers, the Minister of Transport, Sir Ian Bancroft,
Sir John Hunt and Sir Derek Rayner.

Yours ever,

Mark.

(M.A. HALL)
Private Secretary

Post Office

Ministers are reviewing the case for the Carter Committee's proposal that the Corporation be split into its two main businesses, Posts and Telecommunications, and the aim is to make an announcement on the future structure of the Corporation before the Summer Recess. If Ministers decide to split the Post Office, it may be possible to publish a Bill early in 1980. The possibility of modifying or abolishing the Post Office's monopoly on the supply of attachments to its telecommunications network is also being explored.

British Shipbuilders

Consideration is being given to the ways in which the Manifesto commitment can be implemented. Given the poor prospects for merchant shipbuilding, however, the options are limited. Consideration is therefore focused on the three profitable specialist warship builders and on one or two small companies.

British Aerospace

A wide range of possible courses is being considered to carry out the Manifesto promise to offer the industry for sale to the private sector. The front runner at present is the so-called "BP solution". The legislative timetable proposed by the Lord President envisages policy decisions by the Summer Recess and the introduction of legislation by November 1979.

British Steel Corporation

The Corporation has been asked to consider the scope for early disposal of non-mainline assets and other interests, but there are as yet no firm plans for particular sales. However, it has been provisionally estimated that up to £30m might be raised by this means in the current financial year.

Cable & Wireless Limited

The main action being considered is the sale of 49% of the shares in the company to the private sector. We hope to reach a decision in principle before the Summer Recess, depending in part on the outcome of consultation with overseas governments.

NEB

No specific decisions have yet been taken on the disposal of subsidiaries, but there is a general commitment to disposals to a value of £100m in 1979/80.

DEPARTMENT OF ENERGY

National Coal Board and subsidiaries

British Gas Corporation and subsidiaries

Electricity Supply Industry (England and Wales)

All these industries will be considered in the longer term disposals exercise (1980/81 onwards) and in the Nationalised Industry Policy Review. It is too early to judge the timescale of decisions.

DEPARTMENT OF TRADE

British Airways Board

There are three main options to reduce public ownership in respect of the BAB:

- a) the sale of shares to the public in BAB as it now exists;
- b) sales to the public of shareholdings in BAB's subsidiaries;
- c) sale to the public of BAB's trade investments (ie minority shareholdings in hotel companies, other airlines, catering companies etc.)

These options are not necessarily exclusive but need to be considered together in order that action on one does not prejudice the others. Option (a) would be a major exercise and would take time to prepare. The precise timing of any offer of shares could also be crucial to success. It seems likely to be nearer the end of this year before firm proposals emerge for decision.

British Airports Authority (which owns and manages 7 major airports in England and Scotland which between them handle about 75% of passengers and 85% of air cargo in the United Kingdom).

Breaking up the BAA into smaller units does not seem feasible because the London airports must be operated as a single system in order to ease the congestion at Heathrow by inducing traffic to go Gatwick and Stanstead. Similarly the Scottish airports have been the subject of substantial investment to support North Sea oil and tourism and they are making losses. The Authority is making good progress towards profitability in Scotland but meanwhile subsidies from the London airports are unavoidable.

The Authority's investment proposals for 1980/81 involve borrowing from the National Loans Fund in order to fulfill its capital investment plans without a heavy increase in landing fees. One option being discussed with the Treasury is to require the Authority to raise the fees. If the Budget increases the high-street cost of dutiable goods there may also be scope for increased duty-free revenue. The option of issuing shares in the Authority to the public is another possibility.

DEPARTMENT OF TRANSPORT

British Railways Board

British Transport Docks Board (which is responsible for operating Southampton, the Humber and South Wales ports and several smaller ports).

National Freight Corporation

National Bus Company (which through wholly owned subsidiaries, provides stage carriage and coach services in most parts of the country other than London and the conurbations).

a. Work is in hand to implement the Manifesto commitment on the NFC, which will include amending legislation.

The BRB and the NBC exist to provide services which will continue to be required and are dependent on subsidy. It is not considered practicable to make significant changes in their organisations or relationship with the Government. (There may be some possibilities of selling assets held by subsidiaries of BRB or of introducing private capital into them which will be looked at as lines of policy emerge).

c. The question of making any changes in the organisation of the BTDB has not yet been considered, but the Department's preliminary view is that any attempt to dispose of all or part of BTDB from public ownership would create serious danger of industrial unrest in the ports generally, and that this danger would outweigh any benefits from introducing a private sector stake into the business.

DEPARTMENT OF THE ENVIRONMENT

British Waterways Board (whose function is to maintain manage and provide facilities on certain inland waterways).

The function of the Board is essential. Most of its activities are insufficiently remunerative to be transferred other than to some other public sector body. While DOE Ministers will want to review the organisational and financial arrangements for the waterways, some form of public authority is for the foreseeable future likely to be required to shoulder responsibility for them. Meanwhile retention of the Board with its present activities is necessary.

SCOTTISH OFFICE

South of Scotland Electricity Board
North of Scotland Hydro-Electric Board
Scottish Transport Group

For the electricity boards and the Scottish Transport Group the Scottish office will be consulting with Department of Energy and the Department of Transport respectively in the light of Ministers' review of general nationalised industry policy.

SECRET



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

n B/L/S
P/B/S
P/B/S (C)
P/B/S (L)
S. D. Wan
S. L. Airey
M. F. Jones
M. Urrdin
M. F. R. Butler
M. Lavelle
M. Muck
M. Nicks
M. Ridley

7 June 1979

De David

DISPOSAL OF ASSETS

Thank you for your letter of 6th June.

I am writing to let you know that in view of what you have said to me during the week and of your exchange with the Prime Minister yesterday, including her view that BNOC must certainly be slimmed down (recorded in her Private Secretary's letter to yours of 6th June), I have finalised the Budget arithmetic on the assumption that you will be able to realise at least £200 million from sales of BNOC's assets and of BGC's oil interests during the current year. (I was glad to see that you made it absolutely clear to Sir Denis Rooke that no assurance could be given to him on the question of disposals of assets.) As we agreed, the passage on disposals will not mention either corporation by name but will speak of "..... sales of other public sector assets".

I have also taken credit for £100 million for the cash flow effect of taking oil royalties in kind on the assumption that you will announce this as soon as possible after the Budget. I also assume that this will not be unwound during 1980/81, unless there is a major change in the oil supply situation. I understand that our officials have now concluded that the originally agreed figure of £100 million is the right one.

I have taken credit too for the effect on the PSBR of Sir Denis Rooke's offer to raise his debt repayment and change his cash limit accordingly. I am however concerned that BGC can almost overnight find further savings of £132 million. I hope that this is something we can ensure will not happen again next year.

The Rt. Hon. David Howell, MP

/I am sending

S E C R E T



I am sending a copy of this letter to the Prime Minister
in view of the interest she has expressed.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a stylized flourish at the end.

(GEOFFREY HOWE)



11 JUN 1979

C O N F I D E N T I A L



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Amish

NBM

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1

6 June 1979

6/6

Geo Geoffrey

When the disposal of public sector assets was discussed at last Thursday's Cabinet, Michael Heseltine made the point that it was important to try to involve the employees in our plans.

I fully agree with Michael that we must aim to take employees along with us as far as we can. This is particularly relevant to the National Freight Corporation. There is inside the Corporation considerable support for our plan for a BP type solution as set out in the Manifesto and 'The Right Track'. But we should recognise that plans to break up the business by selling off individual parts would be bitterly opposed. I would not want to rule this out as a last resort. We might have to come to it if nothing better emerges. But I am sure that our first effort should be to secure a substantial private shareholding in the Corporation much in its present shape and form.

C O N F I D E N T I A L

C O N F I D E N T I A L

The issue will come up at my first order questions on 20 June, and I would want to make it clear that that is how we are approaching the question while of course not closing any options.

I am copying this to members of E(DL), to the Prime Minister and to Sir John Hunt.

Yours sincerely,

N
NORMAN FOWLER
only

C O N F I D E N T I A L

E 6 JUN 1979





SECRETARY OF STATE FOR EN
 TRINITY HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ

01 211 6402

Rt Hon Sir Geoffrey Howe MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

6 June 1979

Dear Sir,

DISPOSAL OF ASSETS

This letter is to fulfil some of the remits which flowed from yesterday's meeting of E(DL) and, in particular, on what contribution British Gas and BNOC can make to your needs.

But first may I say how glad I was to have a preliminary discussion with you last Monday, it was very helpful to me and I hope to you, to have reached agreement that -

- a) the taking of royalties in kind and £100m cut-back by British Gas would serve to reduce your requirement from disposal of assets from £1.2 bill. to "about £1.0 bill."
- b) in your Budget statement you would refer to "State industries" and not specifically and only to British Gas and BNOC as you originally had in mind.

Taking royalty in kind in the first half of 1980 should bring around £100 million in during the first quarter of 1980. You asked for a more precise estimate and my officials are pursuing this with yours. BNOC have a figure of £150 million - not my officials as the minutes of E(DL) state. My officials' quick estimate is £100-£120 million, much the same as that of yours. There are many uncertainties in this - value of the oil, timing of deliveries and of subsequent disposal. We will see whether greater precision can be obtained within the next day or two but I am not optimistic; in the meantime I suggest that you should bank on not more than £120 million.

Let me now turn to BNOC. You are, I know, most anxious to have the greatest possible assurances about the extent of possible disposals in 1979/80, but it is I am afraid just not within my power to give you any firm promises at this stage, or to say when this might be possible.

As you know we are pressing ahead with a review of BNOC, its role and functions. This is a highly sensitive matter and any changes will need to be looked at very carefully. As you and I know our oil supplies are vital for the success of our economic policies generally and the need to move with extreme caution on anything that might affect them. The results of my review will inevitably and rightly have to be considered by the Cabinet. Whatever the views I come to, I cannot be sure that they will be endorsed by my colleagues.

But this is not the only major uncertainty which prevents me from giving you absolutely firm assurances, despite my personal hope that we can indeed go this way. It is not too difficult to put some sort of book value* within a short period. We not only have to decide what form of disposal and/or private involvement we are aiming at as a matter of policy, but to recognise that all of the courses which we might pursue are of great complexity. We have to face the fact that what is proposed is a series of major business deals, and in the real world such deals can be delayed or fall through.

There is then the question, which we discussed, about our powers of direction on which the Law Officers/to be consulted. /were There is also a maze of legal and contractual rights which govern the relations between BNOC and their partners in the oil fields. Many of these will constrain the form and speed of disposal and the precise nature of them can only be unravelled case by case. Furthermore until we are in a position in due course to establish the extent of interest in whatever assets we are seeking to dispose of, we cannot make any worthwhile judgment about the price that might be obtained. Finally the tax position of would be purchasers could be very important. I do not imagine you would be attracted by a dispersal paid for by the tax payer through the use of tax allowances.

You may be interested to have the enclosed preliminary paper which was prepared here as background to the problems which I have mentioned. I do not necessarily go along with all that is said in it, but you may think it a useful contribution at this stage.

I am sure you understand that I am not seeking to put difficulties in the way - this is not the case at all. It is however essential that we should all be clear about the complexities of these problems and that they cannot be resolved easily or quickly.

* on BNOC's assets, but that is quite different from a sales value

I should mention that Lord Kearton has advised that BNO's interests in the Viking gas field and in the Statjord oil field (which is mainly on the Norwegian side of the UK/Norway median line) might be disposed of with the least damage to the Corporation's financial performance and to the Britoil loan agreement. Lord Kearton estimates that £120-£130 million might be realised from disposing of these two interests, but we cannot regard this estimate, any more than any other valuation, as giving more than the roughest indication of the price we might obtain in an actual sale. Nor is it clear at this point that these assets in particular deserve to be considered as top priority.

As far as the British Gas Corporation are concerned, Sir Denis Rooke has agreed to achieve further savings of £120m. thus raising his cash limit for 1979/80 to minus £449m. I attach a note setting out his detailed proposals to that end. I have told him that in consequence imposed disposal of assets is no longer an immediate issue, though I made it absolutely clear that the Government could give no total immunity for the future on this point.

D A R HOWELL

Yours ever
David

BRITISH GAS CORPORATION

CASH LIMIT 1979-80

PROPOSALS TO MEET NEW GOVERNMENT LIMIT

OF £449 MILLION (NET REPAYMENT)

	£m.	£m.
1. Original Limit according to Treasury Release		259
2. Less £22m. cut not agreed with Corporation	22	
3. Less effect of delay in price increases because of Price Commission	23	45
	—	—
4. Original Limit from Corporation's standpoint		214
Proposals to provide additional cash (£235m.) to meet new limit imposed:-		
5. Additional cash from price increases:-		
<u>Non-Domestic effective from 1.9.79</u>		
	£m.	£m.
5.1 4.3p per therm increase to 24.0p in the commodity rate of the Non-Domestic Tariff (overall average increase 21%)	29	
5.2 4.3p per therm increase to 23.8p in the base line for the renewal of Special Contracts for firm gas (increase 22%)	21	
5.3 1.0p per therm increase (market limit) in the base line for the renewal of Interruptible Contracts (6%)	6	56
	—	—
<u>Domestic Tariffs</u>		
5.4 No increase until April 1980		
6. Additional cash from internal sources:-		
6.1 Capital	40	
6.2 Revenue	103	
6.3 Working Capital	36	179
	—	—
		235

TO BE ATTACHED TO THE
DEPT OF ENERGY LETTER
DATED 6-6-79

CONFIDENTIAL

BNOC Review

DISPOSAL OPTIONS

CH/EXCH/QUER	
REC.	-7 JUN 1979
ACTN:	MR MONCK
COMES	CST
10	FST
	NST (C)
	NST (L)
	SIR DWASS
	SIR LAUREY
	MR F JONES
	MR WICKS
	MR RIDLEY

This paper suggests what objectives should underly any disposal of BNOC's assets; examines the constraints upon such disposal, the possible realisable values and considers the merits of a number of possible disposal options.

Introduction

2. The keys to any disposal strategy must be
 - (a) the future role envisaged for BNOC
 - (b) public expenditure.

3. Decisions about the best means of disposing of assets must depend on the longer term upstream role envisaged for BNOC which will emerge from the current review. If an upstream role is envisaged then any disposal strategy must ensure that interests in licences at the exploration stage (which are likely to be a severe drain on public resources and not readily saleable on their own) are disposed of at the same time as the more attractive assets. As a result of its stakes in 5th and 6th round licences BNOC already has a disproportionately heavy commitment to exploration which is a high risk operation with fairly remote and very uncertain prospect of remuneration. If a continuing upstream role is envisaged then a proper balance between exploration and development interests must be retained if BNOC is to remain commercially and operationally viable.

4. Whatever upstream role is envisaged any disposal strategy needs to provide for the Government, either through BNOC or directly, to retain maximum control over the production from fields disposed of.

5. Any reduction in public expenditure now through disposals is likely to have consequential effects in subsequent years. The saleable assets of BNOC are those expected to produce substantial revenues and



positive net cash flows from now on. Those assets which are expected to put the greatest strain on public expenditure over the next 5 years are unlikely to realise any significant sums at the present time. Sales now of the realisable assets may thus defer from 1982/3 well into the middle eighties the time when BNOC becomes a net revenue earner.

6. Presumably any decision to dispose of BNOC's assets in part or in total will derive from a view either that the benefits which retention of those assets might confer on the State are more than outweighed by the costs associated with them (commitment of public funds) or that they can be secured more advantageously by alternative means.

Objectives

7. Against this background the principal objectives of any disposal should therefore be

- (a) retention so far as possible of the benefits that a State oil company can secure for national policy
- (b) maximum realisations so far as consistent with (a).


Further important objectives are

- (c) to achieve at least some realisations this financial year
- (d) to minimise foreign ownership of any assets disposed of.

Constraints

8. Constraints on disposal may arise from two main considerations

- (a) legal
- (b) BNOC's statutory functions and future role.



9. The following legal constraints need to be borne in mind

- (i) legislation would be needed for disposal of all BNOC's upstream assets. It is a matter of judgement to what extent partial disposal would prejudice performance^{of} BNOC's statutory functions, but this would not seem to inhibit selective sales provided that BNOC was left with a viable upstream operation.
- (ii) disposal directly or indirectly of BNOC's field interests in whole or in part would oblige BNOC to repay its \$675m. US funding before maturity (though, at least in the case of minor disposals, negotiation of a waiver of that obligation might be possible).
- (iii) BNOC's existing agreements with co-licensees may oblige it to offer any equity stake that it proposes to dispose of by way of assignment, first of all to the other members of the consortium.
- (iv) interests in participation agreements could not be disposed of without the consent of partners. Nearly all the agreements specifically restrict assignment to another State Corporation or a wholly owned subsidiary of a State Corporation. (See paragraph 15 below).
- (v) potential purchasers of BNOC's assets may be subject to our own monopolies and restrictive trade practices legislation, US anti-trust problems, and conflict with the Treaty of Rome.
- (vi) introduction of private shareholdings into BNOC would require legislation, since BNOC, like every other state corporation, has no share capital.

BNOC's continuing viability

10. If it is intended that BNOC should retain some form of upstream role, then disposals would need to be planned in order to leave BNOC with a viable operation. BNOC has a disproportionate weight of exploration which will involve it in a high level of risky expenditure with no immediate prospect of return. Disposals of revenue producing assets would increase this imbalance. While this need not affect the viability of BNOC's operations (provided an operatorship were not sold), it would undermine BNOC's financial position, and management motivation. If an operatorship interest were sold, BNOC's future viability as an operator would be in doubt.

Realisable values

11. The table at Annex A sets out a range of valuations for fields either under development or in production. These valuations are based on the Department's best estimates of production profiles and future costs, the high figure assuming a rising real oil price, and a 10% real discount rate, the lower figure a constant real price and a 15% real discount rate. It is our experience that companies tend to look for real rates of return of 15% or more on new developments and base their valuations on fairly conservative assumptions about oil prices, production profiles and costs. Less conservative valuation methods apply where the field is in production and the major uncertainties have been eliminated. The lower end of the range may be the best guide to the sort of values which the assets will realise if sold selectively to willing buyers and without constraints as to the timescale in which the transactions must be completed. In practice we are likely to be committed to disposals this year; potential buyers will be well aware of these constraints, and this is bound to affect seriously the level of proceeds. The figures in the annex may therefore turn out to be unrealistic in sale conditions.

12. The table also sets out the expected gross revenues from each project over the next 5 years, and the outstanding capital expenditures.

13. Apart from the fields already under development, it is difficult to put any reliable valuation on BNOC's other assets. There are



interests in 9 fields where a development appears likely - notably Brae, Hutton, 30/17b. Some positive value could presumably be attributed to these, but until the form of development is decided, any figure would be speculative. BNOC's share of expected development costs on these fields over the next 5 years is estimated to be about £650m. Net revenues from these fields over the same period will be small, since production will only commence towards the end of the period.

14. In addition to these field interests BNOC has interests in a great number of licences - which in the case of the 5th round licences carry with them drilling obligations. It is doubtful whether these interests would have ^{much, if} any positive value, and the existence of drilling obligations on a high proportion of them might make them difficult to dispose of other than to the colicensees. BNOC expects exploration in total (including sole licence work) to come to some £450m in the next 5 years.

15. BNOC's interests under participation agreements are not of an "equity" nature. They consist of contractual rights to take oil at market value. They were negotiated in this way in order to secure the principle that the companies should financially be neither better nor worse off by entering into the agreement. Because of their contractual nature, BNOC's interests cannot be assigned without consent of the other party to each agreement. Indeed, having been made for the express purpose of enlarging the public sector interest, the companies could scarcely be expected to agree to "participation" by another private sector interest. Moreover, participation agreements are thought to be contrary to restrictive practices law, and for that reason the Participation Agreements Act 1978 was enacted to exempt them. If the benefit of the agreements were assigned to a company which was not participating on behalf of the Government, the benefit of that Act would be lost, and the "novated" agreement (which is the technically correct term for an assigned contract) would probably be void. So virtually the only possibility of disposing of participation interests is to let them revert to the parties who granted them.

But, in view of the "no better, no worse" principle, they cannot be expected to pay anything for such a reversion. It must therefore be concluded that participation rights have no value which can be realised by assignment.

16. BNOC's only other identifiable assets are its 25% interest in the BP Maintenance and Emergency Support Vessel under construction (to which BNOC has already contributed about £12m), property and office equipment valued at £10m, and its 50% interest in the Marathon rig - where expenditure so far has been slight.

17. To summarise, the assets likely to command significant value, are set out in annex. It is unlikely that much could be realised from any of BNOC's other assets. But disposal of the assets listed in the annex would mean foregoing substantial net revenues in future years. Disposal of the other assets would obviate substantial net outlays over the next 5 years, but would not realise any immediate public expenditure savings.

Options for Disposal

18. The major options would seem to be

- (i) seek a single buyer for all of BNOC's assets;
- (ii) make selective outright sales of assets;
- (iii) introduce private equity shareholdings either into BNOC itself or into subsidiary companies holding identifiable licence interests.

Complete Disposal to a single buyer

19. This would seem, at first sight, to avoid the problems of what to do with the unsaleable assets which would remain if interests were sold off piece meal, except that, as pointed out above, the participation rights are not transferable lock, stock and barrel, but can

only be released to the companies which severally granted those rights. It would also minimise the administrative problems. BP must be regarded as the most promising potential purchaser. This would have the advantage of retaining the interests in British hands, and in a company with strong ties with HMG. Other possible buyers for the entire operation would almost certainly be foreign owned. Other problems associated with such a move would be

- (a) Legislation would be needed;
- (b) With such a limited range of buyers the Government's negotiating position would be weak;
- (c) While the Government (at present together with the Bank) has a 51% stake in BP and the right to appoint "ex officio" directors with a veto on Board business, the control that can in practice be exercised by HMG is very limited, owing to the duties of the Board towards other shareholders, international considerations and other factors. Any reduction in the Government holding in BP below 51% would lessen what control we have. There is no such control for other potential buyers;
- (d) BNOC's £ funding would have to be repaid or renegotiated;
- (e) BP in particular would run the risk of a Monopolies Commission reference or other action under restrictive trade practices legislation, action by the EEC Commission under articles 85 and 86 of the EEC Treaty, and of anti-trust action in the United States;
- (f) It would be essential to retain the benefits of the participation options to the Government or a Government agency;
- (g) It is doubtful whether a single buyer would wish to take on all BNOC's 5th and 6th round interests, and such a move would anyway be unwelcome to the rest of the industry; moreover co-licensees pre-emption rights might make

disposal to a single buyer difficult. Some disengagement from these would be needed prior to disposal;

- (h) If BP were the buyer then BP's status as an international commercial organisation independent of the British Government - which has been regarded as an important feature particularly for its US operations - could be called into question;
- (i) It would add to the concentration of UKCS interests in the hands of a few large companies, thus reducing the diversity of approach.

Points (a), (d) and (g) suggest that this option would almost certainly not be achieved in 1979/80.

Selective disposal of some assets

20. This could be achieved either by assigning to purchasers or by transfer of the assets proposed to be hived off to one or more subsidiary companies and seeking buyers for the shares. The former would mean that potential purchasers would be almost exclusively oil companies or consortia of institutional investors. The latter course would open the way for small private investors. In either case, provided the total planned disposals were not such as substantially to diminish BNOC's performance of its statutory functions, then legislation could be avoided, which would allow the operation to be set in motion quickly although actual realisations could take as much as a year to achieve. If we planned to achieve complete or substantially complete disposal of BNOC's upstream assets, then legislation would be needed. With a wide range of potential buyers and a longer disposal period, better values might be realised. The problems with this approach which include many of those identified in the case of total disposal are

- (i) it would be difficult to ensure the interests remain in British hands. The pre-emption rights of partners in a licence would limit the scope for assigning interests only to British companies.

- (ii) the more of the revenue producing assets disposed of now, the less will be left to form the nucleus of a commercially viable state operation into which minority private shareholdings might be introduced.
- (iii) the δ funding would almost certainly have to be repaid before maturity.
- (iv) control over the interest disposed of would be completely lost.

Private Equity Shareholding in BNOC

21. The advantage of this approach is that HMG can through a majority shareholding maintain a semblance of ownership of the assets; (although there are severe limitations on the extent to which a majority shareholding will allow the exercise of direct control). The approach can also tap a very wide market with benefit to the sums realised.

22. This would require legislation in order to convert BNOC's capital structure into a conventional form, to provide shareholders with properly regulated rights, and to enable the Corporation to meet Stock Exchange requirements for listing. This carries the consequence that the company so formed will be of a very similar kind to BP. Arrangements would have to be made for some at least of the directors to be appointed by the private sector shareholders, and the apparent control through a majority Government shareholding would, as in the case of BP, be ineffective in reality owing to the requirements of company law about protection of minorities, general law and commercial considerations. Furthermore the existence of a majority Government shareholding may reduce the attractiveness of shares in the Corporation, and therefore the sums realisable.

Private Equity Shareholding in subsidiaries of BNOC

23. It should, however, be possible to transfer some assets to subsidiaries and, to apply for listing for these companies and offer some part of the shares in these subsidiaries for sale to the public. Such a move would almost certainly require the consent of co-licensees who would wish to be satisfied that control remained with BNOC (as majority shareholder), and that the company was financially viable,

and able to meet all its obligations within the licence. There too, the rights of minorities would have the same effects as described above, and the subsidiaries would cease to be "relevant subsidiaries" of BNOC so that the present control which the Secretary of State can exercise through directions would cease to be available. Nonetheless the existence of the Secretary of State's powers of control over an organisation owning 51% of the shareholding would be an important consideration in any prospective investors assessment of the value of such shares. But this approach would ensure that control was lost over only those assets which the Government and BNOC selected for hiving off. Control over the oil from any interests hived off could be maintained by securing for BNOC's trading arm an option to buy all or part of the oil at market prices.

24. If the objective was purely to raise money, then a further possibility would be to seek other forms of external finance which involved surrendering less of the equity stakes in the fields. This might be achieved by seeking normal fixed interest bank finance secured solely on the assets (i.e. with no recourse to HMG), or oil related bonds; or selling equity stakes but retaining the benefits of any unexpected surge in oil prices by taking for HMG a net profits interest over a specified profits threshold. These options would need to be examined in the context of the Government's overall financing and public expenditure policies.

25. Whatever approach is adopted we would need to look very carefully at the true financial benefit to the nation from a disposal, on a case by case basis, taking account of the proceeds of sale, the revenues foregone, and the taxes foregone or acquired. As far as taxes are concerned we would need to look carefully at individual purchasers positions. A purchaser with UKCS ring fence corporation tax liabilities in 1979/80 might, by acquiring an interest in a field that had not yet absorbed all its corporation tax allowanees, be able to defer its 1979/80 corporation tax payments.



DISPOSAL OF ASSETS : BNOC'S EQUITY STAKES IN NORTH
SEA OIL FIELDS

<u>Field</u>	<u>% Interest</u>	<u>NPV £m</u> (1)	(2) <u>Capex avoided</u>	(3) <u>Revenue Forgone</u>
			£m constant prices	
Beatrice	10	5 - 20	25	35
Dunlin	16	115 - 150	20	150
Murchison (UK section)	33½	75 - 160	80	190
Ninian	22.12	360 - 450	110	530
Statfjord UK	33½	40 - 100	60	105
Thistle	18.94	145 - 175	30	180

Note: BNOC's 50% equity stake in the Viking gas field would have an NPV in the range £40 - £48 million on a similar basis.

The table shows the effect of disposal of individual oil field stake as follows.

(1) The NPV shown represents the range of prices which might be achieved, on the basis of 2 cases (already shown to Ministers). (a) The lower price case is based on an oil price constant in real sterling terms, and taking a discount rate of 15%. (b) The higher price case is based on an oil price rising at a real rate of over 4% a year in the long run, taking a discount rate of 10%.

For the remainder of the table, costs and revenues are taken up to 1984.

(2) This column shows all the remaining forecast capital expenditure on field development, which would be avoided if the assets were now sold. Figures are at constant prices.

(3) This column shows the net revenue which the public sector would forgo if the assets were now sold. It comprises gross revenues less operating costs and less the tax take which would accrue to Government even if the assets were sold. Figures are at constant prices. The 1984 cut off date for the table means that later years' revenues have not been taken into account. However, the figures have been prepared on the "rising real oil price" assumption mentioned in 1(b) above.



2 MARSHAM STREET
LONDON SW1P 3EB

CONFIDENTIAL

My ref:

Your ref:

6 June 1979

See copy

*R
W*

Following the meeting of E(DL) yesterday, I asked my Department to look very quickly at the potential revenue from land disposals in the context of your budget statement.

My officials have discussed with yours during this morning the conclusions they reached.

Without wearying you with the qualifications and problems, it seems certain that we can sell some government-owned land; and that we can secure further sales by new towns, regional water authorities etc in this financial year. With the new towns especially, we can reinforce requests by constraining their borrowing. The total figure is uncertain, but it is very likely that we can achieve £40m, including £10m of defence surplus land, with a resultant PESC saving falling to Defence.

In any event, I will proceed with the initiative to raise what I can, regardless of targets.

But I think for your purpose you can safely include a general reference to land disposal of this order in part of your statement referring to the sale of assets. I know that you do not intend to mention details.

As a gesture, I shall be announcing on Monday that I intend to sell the Vauxhall/Effra site. We hope for £2½m. Don't spend it all at once!

I am copying this to the Prime Minister, the members of E(DL) and to Sir John Hunt.

Yours ever
MHE

MICHAEL HESELTINE

6 JUN 1979

1 2 3 4 5 6 7 8 9 0

c. c. -
C/E
D/I
MAFF
D/E
D/T
D/N
Chief Sec, Tsy
c.o.
FCO

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary
cc/ Mr. Wolfson

5 June, 1979.

Disposal of Public Sector Trading Assets

I understand that the Financial Secretary's memorandum on the disposal of public sector trading assets - ED(L)(79)2 - was considered in ED(L) Committee today. This paper discusses, amongst other things, the pros and cons of selling off assets abroad rather than in the United Kingdom. One disadvantage of selling abroad which the paper does not mention is the fact that foreign sales will not have any effect on the growth of the monetary aggregates, whereas domestic sales - provided they are not a substitute for sales of gilts - generally will. This is a point which the Prime Minister has commented on, and I would be grateful if it could be taken into account in further Ministerial discussions.

I am sending copies of this letter to the Private Secretaries to the members of ED(L).

T. P. LANKESTER

Mrs. P.C. Diggle,
HM Treasury.

CONFIDENTIAL

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to Mr Wilson



Prime Minister - to note. 2

This exercise was set in train after your meeting with Gordon Peppé - who, you will remember, suggested the idea.

Treasury Chambers, Parliament Street, SW1P 3AG

4 June 1979

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Handwritten initials and signature: "Handwritten" and "76"

Handwritten signature: "Stan Michael"

DISPOSALS OF LAND AND BUILDINGS IN THE PUBLIC SECTOR

As you know, I am responsible for co-ordinating our approach on asset disposals in general.

I know that you have been considering this, but a number of our colleagues are also concerned, and I think we need a co-ordinated approach if we are to cover the ground effectively. I suggest that the best way for us to proceed would be to ask Ministers concerned to arrange a quick but systematic review of the property owned by government agencies, but excluding nationalised industry property and council houses on which separate action is in hand. If you agree, I should be grateful if you and the other colleagues to whom this letter is copied could each carry out a careful examination of the scope for arranging the sale of land and buildings owned either directly by their Departments, or by government agencies for which their Departments are responsible; and if you and they would each let me know by the end of June:

- (a) what more might be done in the current year; and
- (b) what can be done in the medium term, ie within the five year public expenditure survey period.

Among the specific questions which you and they may want to consider are whether savings can be achieved by moving from, eg prime city centre sites, to cheaper locations; and whether the short term gains obtained by renting, rather than acquiring freeholds, would be worth the longer term costs.

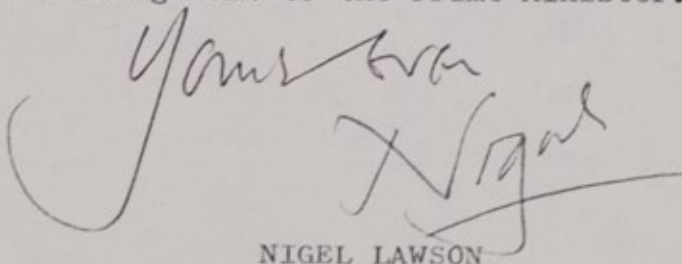
I realise that this will be a complicated and time-consuming exercise, which will need to be carried through with determination. After these first reports, we may need to agree on further follow-up reports, or some other way of keeping track of progress.

These first reviews will no doubt show that there are a number of general policy areas which we shall need to consider. Some questions which occur to me are:

- (i) Can we ensure that sales of surplus property give benefit to the PSBR, instead of encouraging expenditure in other directions, but avoid reducing the incentive for departments and public sector authorities to sell in the first place?
- (ii) Can the disposal of surplus property be speeded up by streamlining local authority planning procedures?
- (iii) What measures, including legislation, are needed to secure the sale of land and buildings owned by new town corporations on a significant scale to the benefit of the PSBR?
- (iv) What can be done to encourage or require local authorities to dispose of investment property such as factories, city centre sites etc.?
- (v) Would it be desirable to establish a special organisation to ensure that surplus property in the public sector is disposed of in an orderly, prompt and efficient manner?

Even before our first reviews have been completed, officials might usefully examine these questions. Some fall properly to the existing Land Transactions Committee, but it might be useful if my officials arranged an early ad hoc meeting to agree on how the work on these and other questions is to be undertaken.

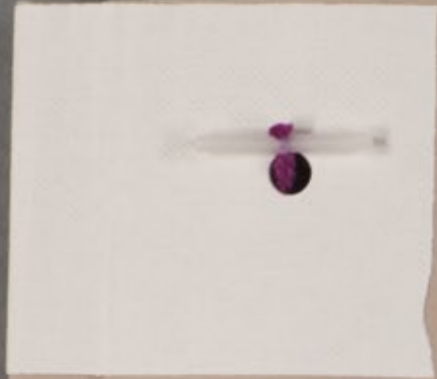
Copies of this letter go to the Secretaries of State in the Departments listed below. A copy is also being sent to the Prime Minister.

Yours ever

NIGEL LAWSON

Copies to: Secretaries of State for: Ministry of Defence
Foreign and Commonwealth Office
Home Office
Department of Education and Science
Department of Health and Social Security
Department of Industry
Scottish Office
Welsh Office
Northern Ireland Office
Department of Employment

-4 JUN 1979

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February 2010