PREM 19/722

MT

PART 5

235

Confidential Filing

Disposal of Public Sector Assets

ECONOMIC POLICY

PART 1 : June 1979

PART 5 : Nov 1981

PREM 19/722

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~6.11.81~~		25.3.82					
~~9.11.81~~		~~30.3.82~~					
~~17.11.81~~		~~5.4.82~~					
~~19.11.81~~		~~[illegible]~~					
~~7.12.81~~		~~30.4.82~~					
~~16.12.81~~		~~12.5.82~~					
~~23.12.81~~		~~21.5.82~~					
~~19.1.82~~		~~25.5.82~~					
~~24.1.82~~		~~24.6.82~~					
~~5.2.82~~		~~2.7.82~~					
~~9.2.82~~		~~29.7.82~~					
~~16.2.82~~		Pt 5 Ends					
~~22.2.82~~		~~9.8.82~~					
~~26.2.82~~		~~[illegible]~~					
~~1.3.82~~		~~7.9.82~~					
~~11.3.82~~		~~[illegible]~~					
~~15.3.82~~		~~6.10.82~~					
~~17.3.82~~		~~30.9.82~~					
~~22.3.82~~		~~18.10.82~~					
		~~30.10.82~~					
		Pt Ends					

PART 4 ends:-

S/S Trade to FST 21.10.89

PART 5 begins:-

S/S Transport to Ch/Ex 3.11.89

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(DL)(81)15	17.11.81
E(DL)(81)16	19.11.81
E(DL)(81)17	20.11.81
E(DL)(81) 4th Meeting, Minutes	27.11.81
E(DL)(81)18	16.12.81
E(DL)(82)3	4.3.82
E(NI)(82) 2nd Meeting, Minute 2	8.3.82
E(DL)(82)5	29.4.82
E(DL)(82)7	17.5.82
E(DL)(82) 3rd Meeting, Minutes	25.5.82
E(NI)(82)19	21.7.82

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 P Wayland Date 21 August 2012

PREM Records Team

Prime Minister ①

Please see Alan Walters' note (attached)

Agree to Lord Cockfield's proposal at X, subject to

(i) request for a privatisation timetable from BAA (② in Alan's note)

(ii) reassurance about their fees not being raised excessively (by international standards) ? MCS 23/7 (① in Alan's note)

No. the paper is very complacent. Send it to 'E'

PRIME MINISTER

BRITISH AIRPORTS AUTHORITY

✓ attached

I have circulated separately as E(NI)(82)19 a note commenting on the performance and current position of the British Airports Authority. I suggest that this paper could be dealt with by correspondence. Unless I hear to the contrary from you or any of our colleagues by the end of next week, I hope that it can be agreed that I should proceed on the lines set out in paragraph 13 of my note.

X

I am copying this minute to other members of E(NI) and to Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H OET

23 July 1982

Arthur Cockfield

LORD COCKFIELD

CONFIDENTIAL

cc Mr. Mount
Mr. Vereker

MR. SCHOLAR

BRITISH AIRPORTS AUTHORITY: E(NI)(81)19

1. The broad satisfaction that the Department of Trade expresses for the performance and plans of the British Airports Authority is not echoed in the House of Commons, nor in many other quarters, especially international airlines and passengers. There has indeed been frequent calls for privatisation and elimination of the very substantial monopoly that BAA commands. (See Michael Colvin et al CPS report of July.)

2. It has been pointed out that the monopoly position of British Airports Authority has enabled them to charge landing fees which have been, by international standards, very high indeed. (When I last looked at this I found the only comparable ones were in Australia.) Although one should not object to high fees if they perform the service of limiting demand to the existing capacity, there is also considerable evidence that such high fees are absorbed in high manning levels and general inefficiency. Certainly comparisons with American airports of a similar kind, such as New York's John F. Kennedy, suggest that BAA costs and manning levels are high. Similarly, JFK charges much lower landing fees than Heathrow, and this has given rise to the outrage of Pan Am and other American airlines.

(1)

3. The only domestic competition for British Airports Authority in the London area comes from Luton, an airport which is owned by the local authority. When I examined airports I found Luton consistently made a good profit for the local authority in spite of its locational disadvantages, the high seasonality of its package tour trade, and the limitation on the size of aircraft. At least Luton should provide standards by which we can judge a minimum requirement for the British Airports Authority.

(2) The Pan Am action will make early progress difficult

4. But in any case the general issue of possible privatisation of British Airports Authority is not mentioned in the report. (I suspect the BAA have contingency plans along such lines!) It is likely that the threat of privatisation would induce a number of changes, such as the rationalisaton of the Edinburgh/Glasgow airports and the reorganisation of Heathrow.

23 July 1982

CONFIDENTIAL

ALAN WALTERS

Prime Minister (2)

pass 23/7

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

22 July 1982

Dear David

DISPUTE BETWEEN BTDB AND BSC

I have delayed replying to your letter of 24 June 1982 to Patrick Jenkin because, as you know, there have been a number of exchanges between BSC and BTDB over the past few weeks aimed at breaking the deadlock in the long running dispute between them over the use of Port Talbot Dock.

I now understand from BSC that they have paid BTDB £4 million, representing about half the sum in dispute, and that BTDB in return have agreed to enter negotiations for a new agreement with BSC. The aim is to reach Heads of Agreement quickly, if possible by the end of this month.

This is a most welcome development. I am assured by BSC that there will be no problems over the payment of the outstanding sums due under the disputed agreement, provided BTDB are prepared to enter into a new agreement wich takes properly into account the current foreseeable throughput at Port Talbot Docks and the tough financial climate in which BSC's South Wales Works are now operating.

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

Yours

NORMAN LAMONT

Norman

cc JV

Prime Minister (2)

MS 2/7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

2 July 1982

Dear Secretary of State,

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION AND THE BRITISH TRANSPORT DOCKS BOARD

I have seen David Howell's letter to you of 24 June about the failure of BSC and BTDB to resolve their outstanding dispute.

David's letter suggests that there is a reasonable prospect of settling new arrangements for the future acceptable both to BSC, and BTDB if BSC would only pay up the outstanding money under the present agreement.

I think there must be a limit to the extent to which one nationalised industry should be allowed to offload its financial problem onto another nationalized industry. But it is even more intolerable where this jeopardises an important Government policy like the sale of BTDB. I very much hope therefore that you or Norman Lamont will feel able to intervene now with BSC to bring and end to their damaging delaying tactics. Do you think your could talk to Ian McGregor? If persuasion is unsuccessful you may want to consider issuing a specific directive to the BSC.

I sending copies of this letter to the Prime Minister, David Howell and Norman Lamont.

Yours sincerely,

D. L. Willetts

pp NICHOLAS RIDLEY

(approved by the Financial Secretary & signed in his absence)

cc JV Econ Pol.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

MS 25/6

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

24 June 1982

Dear Patrick

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION AND THE BRITISH TRANSPORT DOCKS BOARD

attached

I wrote to you on 27 October last about the dispute between the BSC and the BTDB on payments which the latter claim are due to them in respect of port facilities at Port Talbot. Subsequently I discussed the matter with Norman Lamont and Nicholas Ridley on 16 March, when we agreed the lines of an approach to the Chairmen of the two undertakings. I gather from the BTDB Chairman, Keith Stuart, that although he met Ian MacGregor on 26 April little progress has been made. I am therefore writing to you again because I am becoming extremely concerned about the effect of this dispute on our plan to privatise the BTDB.

From what I have been told it may well be possible for BSC and BTDB to find a basis for negotiating a new agreement for Port Talbot for the future. The stumbling block seems to be the outstanding money. BTDB are insisting, very reasonably in my view, that BSC should pay up the money for which they have been invoiced under the existing agreement, plus accumulated interest, before negotiations begin. The Board estimate the

amount that will be due to them from BSC by the end of July at around £8 million, which I am advised is significant enough not only markedly to depress the price we could get for the business but even to jeopardise the achievement of a sale at all. So, however much BSC may feel they are serving their interests by keeping the money, they are not serving the interests of one of our most central policies.

As I mentioned in my previous letter, BTDB have issued a writ against BSC. I have now heard that the Court hearing will not take place until January 1983. It is likely to be a little while after that before the judgment is known. I on the other hand am aiming to be ready for a flotation of BTDB in January. So the judgment would come too late, and in view of the amount of money at issue failure to settle the dispute quickly will be critical to the success of our privatisation plans.

I shall have to draw attention to this in the paper on BTDB that I shall be putting shortly to E(DL). But I thought it right to give you advance warning of this latest development, in the hope that you or Normal Lamont can persuade BSC to enter into serious negotiations with BTDB, including early settlement of their outstanding debt.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nicholas Ridley and Norman Lamont.

Yours ever

David

DAVID HOWELL

cc JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

27 October 1981

The Rt Hon Patrick Jenkin MP
The Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

Dear Patrick

DISPUTE BETWEEN BRITISH TRANSPORT DOCKS BOARD AND BRITISH STEEL CORPORATION

As you will know, the Transport Act 1981 makes provision for the introduction of private capital into the British Transport Docks Board. It has been necessary to postpone proposals for flotation this Autumn due to a decline in BTDB's performance but I am hoping to proceed with flotation during 1982.

A significant factor in BTDB's poor performance is a continuing dispute between BTDB and BSC over BSC's refusal to honour an agreement, which dates from 1970, to make shortfall payments to BTDB if tonnages through Port Talbot are below a certain minumum. BSC are withholding shortfall payments for 1980 and a substantial part of tonnage payments on actual throughput in 1981. The total owed now exceeds £4 million - a very substantial sum set against BTDB's net profit of £0.2m for the first 34 weeks of 1981. BTDB issued a writ against BSC in February but the case is unlikely to come to court until well into 1982.

I am very concerned about this dispute as not only does it reduce the valuation of BTDB's business, but I am advised that it could well prove an insuperable obstacle to flotation. BTDB have a strong case and are confident of a Court's verdict but this could well come too late for

flotation plans. In any case, the prospect of two nationalised industries battling in Court is not at all satisfactory. This continuing squabble can only reflect badly on the Government.

Norman Fowler wrote to Keith Joseph about this in June and your officials proposed the appointment of an 'honest broker' to negotiate a compromise. But I am afraid this is not acceptable to BTDB. They consider they have a very strong case and that many of the points made by BSC do not stand up to close examination. I agree with their viewpoint. Having looked at the background, I do not think they should be expected to take part in arbitration proceedings which would imply a readiness to make concessions.

I appreciate that you will be concerned about BSC's serious financial position and the uncertainty about the future of steel-making in South Wales. But it does not seem sensible policy for the cash flow of a nationalised industry in serious difficulty to be improved at the expense of one on the margins of profitability, particularly when this is jeopardising part of the privatisation policy to which we are all committed.

I am therefore writing to ask whether you would take this matter up with the Chairman of BSC so that this dispute can be brought to an end as soon as possible. I am copying this to colleagues on E(EA).

Yours ever

David

DAVID HOWELL

P.1. Econ Pol

cc Mr. Mount
Mr. Vereker
Mr. Smith
Mr. Scholar
P. Gregson

10 DOWNING STREET

The Right Honourable
Sir Geoffrey Howe, QC MP,
HM Treasury,
Parliament Street,
Whitehall, SW1.

21 May 1982

Dear Chancellor,

E(DL)(82)7: BR PRIVATISATION: SEALINK

We have some doubts about the suitability of Carnival Cruise Lines Inc as a potential purchaser of Sealink.

Carnival Cruise Lines is owned by Maritime Management SA of Monaco; in turn it owns four separate subsidiary companies which each operate one ship each, namely Mardi Gras, Carnival, Festival and Tango Express, with the first three offering cruising and gambling facilities and the last named being a roll on/roll off lorry ferry; these ships are all Panamanian registered operating with Third World crews out of Miami, Puerto Rico, Virgin Isles and the Caymans.

Mr. Arison is the principal shareholder of Carnival Cruise Lines and Maritime Management SA and its subsidiary companies. He is well-known in Miami business circles for his entrepreneurial activities. He was previously engaged in the shipping business with Norwegian Caribbean Lines but had a major disagreement with them which resulted in a court case which Mr. Arison lost. He has also in the past sued Cooper Brothers, the international accountancy firm, and again lost. He is active in areas other than shipping in the south eastern part of the USA, namely in mortgage lending in Georgia, and savings-loan associations in Florida. These operations all seem profitable at present. He is regarded as having considerable entrepreneural skills though there are murmurs that he may recently have over-extended himself in the holiday and tourism business as some doubts are now being expressed regarding his more recent ventures in the Caribbean tourist field. Some observers take the view that he might "do a Laker" in that he is operating at the lower income end of the market on low margins; whilst volume holds up he could do well, but if it dips he could be in some financial trouble.

We would suggest that more investigation is needed of Mr. Arison and his various companies and financial interests if any sale of Sealink to Carnival is to be seriously contemplated.

/An alternative

An alternative possibility might be to break up the constituent parts of Sealink such as:

Isle of Wight
Channel Islands
Lake District Ships
Gravesend Tilbury.

These might be sold separately.

Yours sincerely

Alan Walters

ALAN WALTERS

Econ Pol

Ref. A08398

MR WHITMORE

I understand that Professor Walters has asked if he might be invited to the Ministerial Sub-Committee on the Disposal of Public Sector Assets (E(DL)) when the Financial Secretary's paper on methods of privatisation (E(DL)(82)5) is discussed.

2. There are of course plenty of precedents for Ministerial advisers attending meetings of Official Committees. Mr Young, as the adviser to the Secretary of State for Industry, used to accompany his Secretary of State to meetings of E(DL). But I know of no precedent for Ministerial advisers attending meetings of Ministerial Cabinet Committees in their own right, otherwise than in attendance upon their Ministers. Considerable latitude has developed over the attendance of the Prime Minister's advisers at Cabinet Committees which the Prime Minister herself chairs, as Professor Walters himself attends meetings of E, although at such formal meetings (as opposed to informal meetings) the convention is that they are unseen and unheard, and their presence is unrecorded. There are also special rules for the Head and Deputy Head of the Central Policy Review Staff who advise Ministers collectively and are regular invitees on a formal basis to certain Cabinet Committees, some chaired by the Prime Minister and some chaired by other Ministers. It is however a different and new proposition that one of the Prime Minister's advisers should attend a meeting of a Cabinet Ministerial Committee which she does not herself chair, especially if the intention is to take an active part in the discussion. It would be an innovation which might not be welcomed by all the Prime Minister's colleagues.

3. In order to avoid that kind of problem, it should be possible to find other ways to enable Professor Walters to contribute to the debate on methods of privatisation. A letter could go round from No 10 drawing the attention of Ministers

attending E(DL) to a note setting out Professor Walters's views, and the letter could be referred to as a relevant document on the E(DL) agenda. Moreover if, as seems likely, officials are instructed to undertake further work following the discussion in E(DL), or there are subsequent informal meetings involving Ministers and officials, there would be no difficulty in Professor Walters taking part in such meetings, by arrangement with the Chancellor or whoever had responsibility for convening such discussions.

ROBERT ARMSTRONG

12th May 1982

SC JV

NBPM

MCO 11/5

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

11 May 1982

The Rt. Hon. David Howell MP
Secretary of State for Transport

Dear Secretary of State,

PROCEDURE FOR PRIVATISATION: BTDB

Thank you for your letter of 30 April. I am glad you agree to use the interval created by postponement of flotation from July to consider all options for sale of the Docks Board, as suggested in Nicholas Ridley's letter of 30 April to you. My officials and the Bank will be ready to discuss these with you as soon as the material you have commissioned from Kleinwort Benson is available.

In your letter you make the point that the priority must be to achieve a successful sale at a satisfactory price for the Government. You also say that you will looking for a wide spread of share ownership. As you know there can be a conflict between a share ownership objective and the objective of obtaining the best possible price for HMG as vendor. I suggest, as in the Britoil case, that if any objective is to be dominant in our planning for the sale then it should be our desire to maximise sale proceeds, subject only to the need to sell sufficient shares to effect a transfer of the Company to the private sector during this Parliament. When we have decided the method of sale which maximises proceeds, then we can consider the measures which might be adopted to secure a wide spread of holdings if that is possible. I hope you can agree that our officials should examine the options on this basis.

I also agree with what you say about the need to present our privatisation programme in a positive and forward looking way. Of course your sale of the National Freight Company to a management-led consortium was a signal achievement in this area, as have been our successes in encouraging employee take-up of shares in other flotations. This is something which I am sure it is worth emphasising.

I am copying this letter to the Prime Minister, our E(DL) colleagues and Sir Robert Armstrong.

Yours sincerely,

Peter Jenkins

(Approved by the Chancellor of the Exchequer, and signed in his absence).

cc: GEOFFREY HOWE

CONFIDENTIAL

cc. JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

MCS 30/4

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

30 April 1982

Dear Secretary

MT

PROCEDURE FOR PRIVATISATION

will report if required

I have, rather belatedly, seen a copy of your letter of 30 March to Patrick Jenkin.

The handling of the sale of the British Transport Docks Board will need careful consideration. The need to postpone the sale until the Autumn, of which I informed members of E(DL) in my letter of 19 April to the Financial Secretary, will give rather more time for a thorough examination of the options. I have asked Kleinworts and the brokers to report on the available methods of sale and their applicability to the particular circumstances of the sale of BTDB. When their advice is received, my officials will wish to discuss with your officials, and the Bank and I shall put a paper to E(DL).

The priority will be to achieve a successful flotation at a satisfactory price for the Government, which will be difficult, given that we are selling a port operation which has had significant industrial trouble and a disappointing record in the last two years. We shall of course also be looking for a wide spread of share ownership, and intend to include an employee shareholding scheme. But because the offer will be relatively small, and is of a body in an industry which only twelve years

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ago suffered the bankruptcy of the Mersey Docks and Harbour Company we may find that the scope for using a method of sale other than flotation is limited. Nevertheless, we shall explore all possible approaches.

More generally, could I express the hope that we can unitedly put a bit more drive behind the political selling of our privatisation programme which is, of course, a vital component for our promotion of a capital-owning democracy. Our efforts seem to get misrepresented far too often as pure and simple de-nationalisation which "the other side" will reverse in due course. In fact they are part of a far wider trend away from collective state ownership and towards a better balanced and less centralised economy based on private enterprise and widely dispersed ownership, and I hope can be presented as such.

I am copying this letter to the Prime Minister, our E(DL) colleagues and Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

CONFIDENTIAL

CONFIDENTIAL

Econ Pol
cAW

Prime Minister

(2)

MCS 27/c

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

23 April 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

Dear Nigel

PROCEDURE FOR PRIVATISATION: BRITOIL

Thank you for your letter of 15 April.

On Britoil, I agree that there should be a Working Party, under your Department's chairmanship, to consider the method of sale. Nigel Wicks will attend from this Department and Ian Plenderleith from the Bank. Warburgs' helpful paper should provide some useful material for the Working Party. The Working Party will also no doubt wish to take account of the paper by the Treasury which the Financial Secretary will shortly circulate to E(DL).

You suggest that the Working Party should in particular consider two key areas:

- whether the issue should be underwritten;
- how to secure a wide spread of ownership when the shares are sold.

Certainly underwriting is a key issue and will be central to the Working Party's task. And I quite agree that it will also need to consider methods of securing a wide spread of ownership. But I assume that you are not suggesting here that ensuring a wide spread of holdings should be the dominant objective in the sale. As Warburgs' discussion paper rightly points out, there is a basic conflict between this objective and the objective of obtaining the best possible price for HMG as vendor. I suggest that if any objective is to be dominant in our planning for the sale then it should be our desire to maximise sale proceeds, subject only to the need to sell sufficient shares to effect a transfer of the Company to the

CONFIDENTIAL

private sector during this Parliament. In short, the first step is to decide the method of flotation which maximises proceeds; only then should one move to consider the measures which might be adopted to secure a wide spread of holdings under that method of flotation. I hope that you can agree to the Working Party proceeding on this basis.

I am sending a copy of this letter to the Prime Minister, our E(DL) colleagues and to Sir Robert Armstrong.

GEOFFREY HOWE

MCS Seen.

PM Seen with ch/Ex
cc S/S Treasury
21/4/82

01-211 6402

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

15 April 1982

Dear Chancellor

PROCEDURE FOR PRIVATISATION

I have read your letter of 30 March to Patrick Jenkin.

I agree that the method of handling future sales of shares will require careful thought in each case.

On Britoil, my Department has already commissioned the attached report by Warburgs on the options open to us, their strengths and weaknesses. As a next step I propose that there should be a working party, chaired by Philip Jones of this Department, with your officials and the Bank, to go over the ground. They may of course wish to draw on Warburgs' assistance as necessary.

I would in particular like this working party to consider two key areas. First, whether the Britoil issue should be underwritten. Second, how we can secure a wide spread of ownership when the shares are sold. Both are matters which will be subject to close scrutiny and need to be tackled now.

I am copying this letter to the Prime Minister, our E(DL) colleagues and Sir Robert Armstrong.

Yours sincerely

Nigel Lawson

NIGEL LAWSON

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

SECRET

c.c. Mr. Vereker

10 DOWNING STREET

From the Private Secretary

5 April, 1982.

Privatisation of the NCB's Opencast Operations

The Prime Minister was grateful for the Chancellor's minute of 29 March, which recorded the conclusions of the Ministerial Sub Committee on Disposals (E(DL) on the disposal of the NCB's opencast mining operations.

The Prime Minister has noted these conclusions.

I am sending copies of this letter to Julian West (Department of Energy), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

SECRET

SECRET

cc JV 10

(1)

Prime Minister

You intervened on the basis of the Policy Unit's note at flag A.

Agree to E(DL)'s conclusions?

Yes

MCS 31/3

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

PRIME MINISTER

PRIVATISATION OF THE NCB'S OPENCAST OPERATIONS

At its meeting on 25 March the Ministerial Sub Committee on Disposals (E(DL) considered the Secretary of State for Energy's paper E(DL)(82)3 on the disposal of the National Coal Board's (NCB's) opencast mining operations (E(DL)(82) 2nd Meeting). Your Private Secretary's letter of 15 March recorded your wish to be consulted before final decisions were taken.

2. E(DL) endorsed the Secretary of State for Energy's view that the Government's long-term objective must be to transfer to the private sector as much of the NCB's activities as possible and that in principle the opencast mining operations were a prime candidate for sale. The Sub Committee was, however, unanimous in its view that, primarily because of the danger of provoking a confrontation with the miners, legislation on this front should be deferred until the next Parliament.

3. There is already a real possibility of difficulty with the miners this autumn over pay. Mr Scargill will doubtless want to demonstrate his toughness as a negotiator during the first pay negotiations of his presidency of the NUM; recent press reports have suggested a claim as high as 27 per cent. He will also want to avoid a repetition of the defeat he suffered in the miners' pay ballot in February. He will therefore seize any opportunity that arises to present the Government's policies as a threat to the future of the coal industry and to move any dispute next autumn away from just pay and on to wider issues. An early announcement of further privatisation measures and the passage of the necessary

legislation could provide him with just such opportunities. Even moderate members of the NUM are strongly opposed to privatisation; the resolution expressing opposition to privatisation which the NUM Executive Committee passed last year was moved by Mr Trevor Bell, the most moderate of Mr Scargill's opponents in the presidential election. An early announcement of a decision to sell off the NCB's opencast operations would be essential if the necessary primary legislation were to be prepared in time for inclusion in the 1982-83 Session, and this could put at serious risk the steps we are currently taking to maximise power station endurance by the autumn. The Sub Committee was also concerned that early action on privatisation, even if it did not result in a major dispute with the miners, could make more difficult the achievement of other measures designed to restore the coal industry to profitability, such as the elimination of high-cost mining capacity.

4. For the same reasons E(DL) also agreed that consideration of legislation necessary to transfer to the Department of Energy, or to any other body, the NCB's powers to licence independent mines should be deferred until the next Parliament.

5. The Secretary of State for Energy will, however, press the NCB to continue to make good progress with the privatisation of its non-mining activities and with improving opportunities for small private licensed opencast operators; and also to adopt the recommendation of the Commission on Energy and the Environment that the Opencast Executive should be treated as a separate unit in the NCB's accounts, thereby bringing out more clearly the losses incurred by deep mining.

6. He will also make clear to the new Chairman of the NCB, when he is appointed, that one of his long-term objectives must be the transfer of as much of the NCB's activities as possible to the private sector. The Sub-Committee attaches

importance to ensuring that the new Chairman is fully seized of this objective and is willing to put his weight behind it.

7. I am sending copies of this minute to the Secretary of State for Energy, to Mr Ibbs and to Sir Robert Armstrong.

(G.H.)

29 March 1982

CONFIDENTIAL

Econ Pol

Prime Minister (2)

A necessary initiative, I believe.

MCS 30/3

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

30 March 1982

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

Dear Patrick

PROCEDURE FOR PRIVATISATION

I have been giving thought to the procedure which E(DL) should adopt for handling individual share flotations in the privatisation programme. In little more than a year we have successfully sold British Aerospace, Cable & Wireless, the National Freight Company, and Amersham International. But in a number of sales we have subsequently had to face criticism about particular aspects of the operation, including criticism of the price achieved and the form of the sale. Much of this criticism is from those who are opposed to our privatisation programme on political grounds. But it cannot be wholly discounted. We must ensure that we are not vulnerable to legitimate criticism and that we do not by our own actions give ammunition to our critics.

Each sale has special features arising from the nature of the company and the market which will determine our judgement about the right approach to privatisation in the particular case. There is no cut-and-dried solution which has general application. But it is vitally important that for the key decisions on the size and form of the sale all the relevant options have been considered. This must not be hurried; difficult judgements are likely to be involved. The key issues need to be considered several months in advance of the planned date of sale and well before the actual time-table of flotation is under way.

I therefore propose that for each future privatisation the sponsor Minister should prepare a paper for E(DL) which will discuss the main questions which need to be settled in relation to the sale. The paper should identify the Government's key objectives (e.g. maximum proceeds, timing of sale, employee and/or small investor shareholding) and the options for achieving them - for example, the size and method of sale; fixed price or tender; the possible need for underwriting; allotment policy, including any restriction on share sale and preference for small investors or employees. It should be prepared in close consultation with the Treasury who may wish to bring in the Bank of England. The Department for its part

/will no

will no doubt draw on the advice of whichever merchant bank will be their main adviser for the sale. The paper should represent an agreed statement of the main options.

I should like these arrangements to be applied immediately to the planned sale of Britoil and the British Transport Docks Board. In the case of Britoil, I note that the current aim is to discuss the strategy of the sale in June: I hope we will be able to hold an E(DL) discussion rather earlier, and would be grateful if Nigel Lawson would, in consultation with Nick Ridley and Treasury officials, arrange for the early preparation of an E(DL) paper. In the case of the British Transport Docks Board, the target date of a July sale means that there is much less time. I hope that David Howell will circulate an E(DL) paper, prepared in consultation with Treasury officials, as soon as possible.

In the meantime I am having a paper prepared in the Treasury (in consultation with the Bank of England) which sets out the arguments on a number of key issues which need to be considered for any share sale. This paper will not of course substitute for the specific consideration which needs to be given in each particular case and which will be covered in the papers I have referred to. However it should be useful background to this. I will circulate it to E(DL) as soon as it is ready.

I am copying this letter to the Prime Minister, to our E(DL) colleagues, and to Sir Robert Armstrong.

GEOFFREY HOWE

RESTRICTED

Prime Minister (2)

MCS 25/3

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1

25 March 1982

Dear Secretary of State,

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

I did not quite understand the purpose of your letter of 22 March. As I have said, I fully support the decision to privatise the HRS, and have no wish to hold up the operational moves necessary to implement it.

I am concerned with one simple point. On 1 April we are - in effect - giving the shadow board about £10 million worth of public assets to take the HRS off our hands. I can't help wondering, whether it is absolutely essential to put another £5 million into the HRS on top of the first £10 million.

As I understand it, that £5 million will not be transferred on 1 April. It will be given later in grants to finance a new computer, office block and wave basin. In suggesting that we reassess the case for it, I do not mean to interupt the agreed timetable.

I simply ask whether we can scale down our commitment, at least at the margins. It is hard to believe that there can be no scope whatever for economies - that the HRS could not, for example, sell any of the £10 million worth of existing assets we shall be transferring to help finance its new office block. However, this must of course be for you to judge. I have said before that I do not want to second guess your decisions.

If your considered view is that absolutely nothing can be trimmed from the taxpayer's commitment of £15 million, then it is important that colleagues should be clear about the basis on which we shall be proceeding. We must be seen to have got the best possible deal for the taxpayer. In this case we shall be giving £15 million of the taxpayer's assets to an institution which, on its own plans, will lose substantial sums over several years. We cannot pretend that the business plan shows a viable company offering modest returns. It shows a shaky company offering negative returns. I hope that will prove to be wrong.

The risk is that the PAC and the public will say that we gave too much public money to an unviable enterprise. Furthermore, in relation to the extra £5 million, we gave it to the HRS after it had left the public sector.

We may choose to go ahead with our plans, without any modification at all, despite the business plan. But if so, it must be with our eyes open.

I shall be happy to deal with any further points you have on our redundancy guarantee when I have the separate letter you promise.

I am sending copies of this letter to those who had yours.

Yours sincerely

D. L. Willetts

pp NICHOLAS RIDLEY

(approved by the Financial Secretary & signed in his absence)

YD

Prime Minister (2)

Mr Heseltine turns the heat on the Treasury.

MCS 22/3

Econ. Pol

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

22 March 1982

Dear Mr Ridley,

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

I must say in reply to your letter of 17 March that I am astonished that at this late stage you are raising objections of such an apparently fundamental nature to our decision to privatise the Hydraulics Research Station. It is not as your letter suggest a question of looking again at the details of the present plans. What you are suggesting in effect is that we should abandon altogether the work which we and the Shadow Board have done over the past eighteen months and I am afraid that I find this completely unacceptable. You seem to overlook the fact that the company is already registered - with the agreement of colleagues this was done in the names of Peter Carrington and me - in preparation for trading to start on 1 April; the staff have to decide by the middle of next week whether or not to accept secondment to the new company.

In all conscience it is too late to start re-examining our decision in the way that you suggest. I might have had more sympathy with your doubts if I thought the Treasury had not been kept fully in the picture throughout, but that is clearly not the case. I wrote originally to John Biffen on 13 October 1980 explaining the background to my proposal to transfer HRS to the private sector. It was quite clear in that letter that in the short term the new organisation would face a difficult financial situation. I spelled out in an annex the assumptions that would have to be made about Government finance for a privatised HRS. Following a meeting with colleagues to discuss this exercise I wrote again to Nigel Lawson on 28 November 1980 explaining again in detail the financial consequences of a decision. It has always been the case that the total liability we were talking about was in the region of £14-15m. It was agreed by Nigel Lawson (his letter of 19 January 1981) that we should proceed on this basis. And it was with subsequent Treasury agreement that I made my statement in the House on 17 July 1981 on the future of HRS. This statement spelled out quite clearly what was being proposed and if I had thought that you or anyone else had any doubts that statement would certainly not have been made and we would not have gone to the trouble of setting up a Shadow Board to advise on the detail of the transfer.

Notwithstanding all this history, if I was now convinced that we were on the wrong track I would readily agree that we should stop and take stock; indeed I would have felt obliged to do so long

before now. But I do not believe that is the position. We have taken a decision to privatise HRS and the independent Shadow Board that we set up to advise us on the viability of that organisation has reported that the decision can be made to work. I stand by what I said in my earlier letter. The HRS exists and is going to cost us money whether it is in the public sector or in the private sector. Moreover there is a continuing need by the Government for research which only the Station carries out. If the private sector cannot provide the service the Government will clearly have to continue to do so. Much of the work which Departments commission at HRS goes there because it is the best contractor to provide them with this service. Our decision on privatisation was based on the expectation that competition in the private sector was the best method of ensuring that the service was provided as efficiently and effectively as possible. It will in addition put a limit to the amount of public money which needs to be spent. The only way in which we could limit further the amount of public funds devoted to this exercise would be to put the new company in such a parlous financial position at the outset that it would be back on our hands within a very short time. This is an eventuality from which nobody would benefit.

I am of course grateful that you have felt able to guarantee the redundancy payments in the way described in your letter but it is disappointing to know that you are continuing to press for the Government to be a secured creditor. As I have explained before, the company are bound to resist this suggestion for it will undoubtedly restrict their commercial freedom. I will have to write to you separately on this point. But we need to be clear about the value of the assets that will transfer. You now seem to be quoting a figure of £10m though our earlier correspondence described the assets as having a value of nearer £6½m. I think you may be including in your higher sum the capital payment which will have to be made to the new company in respect of pension transfers. We cannot count that sum as part of the assets - it is money we are liable for; nor can we include the amounts we will of course be receiving a return. So even on your prospectus things are not quite as bad as you say.

In summary then I have to say that I regard your continuing objections as being out of time and I want now to proceed to inform Parliament without further delay of what we are doing. I would be glad to know that you can agree to this. Because of the urgency of this issue I am now copying this letter to the Prime Ministerand other members of E Committee, the Lord President and Sir Robert Armstrong.

Yours sincerely,

Helen Ghosh

MICHAEL HESELTINE

(approved by the Secretary of State but signed in his absence).

The Rt Hon Nicholas Ridley MP

CONFIDENTIAL

Note incl. Ridley

Prime Minister

(2)

A battle between Messrs Heseltine and Ridley about the manner of privatising the Hydraulics Research Station. £15m or so at stake.

MCS 18/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Department of the Environment
2 Marsham Street
LONDON
SW1

17 March 1982

Dear Michael

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

Thank you for your letter of 9 March.

I was a little surprised by your remark that, whether the HRS is privatised or in the public sector, it is bound to cost us money, and we are bound to provide it with a new computer, experimental buildings, and working capital.

If the HRS were to remain in the public sector and to face the very disappointing prospects shown in its business plan, there is no question but that we should be pressing urgently for economies. If, on the other hand, it were already in the private sector, it would normally attract investment only if it offered a decent rate of return. The fact that it is now in transition can scarcely suspend the usual rules of prudence. On the contrary, this is an important time to take stock because, once we have privatised the HRS, we shall no longer control its running costs.

I do hope, therefore, that you will have another look at the details of our present plans, as I suggested in my letter of 26 February. I am not questioning the principle of privatisation, which I support with enthusiasm. But I am concerned to get the best deal we can for the taxpayer's money. I should hate to think we have to proceed as if there is something inevitable about committing public assets to a negative rate of return.

For colleagues' benefit, I should perhaps add that we are not talking about peanuts. We already have over £10 million at stake in the HRS, mainly in land and property and equipment. We are proposing to inject a further £4-5 million working capital and a new computer, office block and wave basin. So we shall be giving the HRS about £15 million, in round figures.

On that investment, the HRS is planning to lose nearly £½ million over 5 years. That is on its own "central" and probably optimistic projection. On its own "pessimistic" assumptions the HRS would lose about four times as much. Both estimates are before allowing for (notional) interest payments. It is hard to believe that we could not find better uses in the private sector for some, at least, of

of our capital stake. Giving the land and buildings to the HRS is not, after all, the only way to dispose of them.

Turning to our security for the guarantee we will offer on redundancy payments, I agree that we do not want to restrict unduly the compan's freedom to raise finance on its own account. But I am not convinced that giving the Government the status of a secured creditor would have this effect. The arithmetic suggests other wise: the contingent liability for redundancy compensation will be about £2 million, while the HRS's assets after privatisation will be over £10 million. I can understand the shadow board's likely reluctance to accept this charge on the assets, but it would be of strictly limited duration, and the Board would be under no obligation to continue it after the guarantee expires. It must be recognised that our willingness to accept the guarantee is a significant concession and we must do all we can to safeguard public funds: the PAC have quite recently expressed concern at the growth of contingent liabilities of this kind. In the absence of more convincing reasons, therefore, I continue to think that the Government should be secured creditor in the event of liquidation.

On this basis, I am content that you should inform the staff of the terms of the guarantee we have agreed to offer. I think that this will meet your immediate concern, which is to help the HRS to complete the secondment of staff by 24 March, as planned.

However, I do not think it would be right to proceed to an announcement of our response to the Shadow Board's report until we have reconsidered the scale of our investment in the HRS in the light of its business plan.

I am copying this letter as before.

Yours ever

Nick

NICHOLAS RIDLEY

CONFIDENTIAL

cc. TV. EO
Econ Pol

10 DOWNING STREET

From the Private Secretary

15 March, 1982.

Privatisation of the National Coal Board's Open Cast Operations

The Prime Minister has seen the Energy Secretary's paper of 4 March on the possibilities for privatisation of open cast mining. I understand that this paper is to be discussed at a meeting of E(DL) on Wednesday, 17 March.

The Prime Minister is not wholly convinced by the arguments in Mr. Lawson's paper. She would be grateful if the Chancellor would consult her before a final decision on this matter is taken.

I am sending a copy of this letter to Julian West (Department of Energy).

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury.

CONFIDENTIAL

Prime Minister

(1)

CF gps p2

CONFIDENTIAL

Yes pls Do you want to intervene as at X?

Or to leave this to E(DL)?

MR. SCHOLAR

cc: Mr. Hoskyns
Mr. Walters MLS 12/3

A lot will depend on the new Chancellor not

PRIVATISATION OF THE NATIONAL COAL BOARD'S OPEN CAST OPERATIONS

Mr. Lawson's paper for E(DL) raises important issues: on the one hand, privatisation policy and, on the other hand, our handling of the NCB/NUM problem.

Mr. Lawson opposes privatisation of the open cast mining operations, partly because of the effect on the NCB finances, and partly because of his fears of the effect on the NUM. The Prime Minister will recall that when this issue first arose last summer, Mr. Howell argued that we should wait until after the pay negotiations.

We think there are arguments against privatisation, although not those which are highlighted in the paper:

(i) The most important structural change at present needed in the coal industry is the continuation of the pit closure programme, which ought not to be prejudiced, as it might be if Ministers ask the NCB to dispose of open cast mining; and

(ii) The NCB/NUM relationship is bound to be considerably affected by Mr. Heseltine's decision on the Vale of Belvoir. There would indeed be considerable risk of aggravating the moderate majority within the NUM if a decision on privatisation and an adverse decision on Belvoir were to be made this spring (but conversely, of course, a favourable decision on Belvoir would make it easier to announce privatisation).

We are not much impressed by the argument about the NCB's finances: a similar argument applies to all privatisation measures, and of course foregone profits could to some extent be recouped through a licensing system. Nor do we think the NUM would call

/ industrial

CONFIDENTIAL

industrial action on this issue alone, having just failed to achieve a majority for industrial action on the much more important issue of pay.

And there are good arguments in favour of privatisation. Open cast mining is highly profitable, and privatisation might even enable an increase in output. Disposal would therefore considerably reduce the NCB monopoly, perhaps to the extent of 15% of output. It would be hard to reconcile a decision against privatisation of open cast mining with the Government's general privatisation policy.

The balance of the arguments is not absolutely clear, although it seems to us to favour privatisation. We think that E(DL) is unlikely, on the basis of Mr. Lawson's recommendations and a lukewarm attitude by the Treasury, to recommend privatisation. The Prime Minister may feel that all the arguments should be considered carefully and brought to her before a decision is taken, and that you should write to the Chancellor (as Chairman of E(DL)) indicating that she is not wholly convinced by the arguments in Mr. Lawson's paper.

11 March 1982

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/11694/82

Your ref:

9 March 1982

Dear Nick

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

Thank you for your letter of 26 February about this exercise.

I am glad to know that you are content in principle to give the guarantee which I sought on the contingent liability to redundancy payments. I can understand your reasons for the condition a. relating to the duration of the guarantee and I accept them; I accept also that the Government should have a right to claim in the event of liquidation. But I fear that the Shadow Board will not feel able to meet your preference for making the Government a secured creditor and I do not think that in the circumstances it is reasonable to ask them to do so.

The Shadow Board said in their report to me "to secure [the redundancy payments] against the assets could severely restrict the future commercial freedom of the Board and we would ask the Government to accept this liability". If we seek to become a secured creditor we are restricting the Shadow Board in the very way they (and we) seek to avoid. I would therefore urge you to accept that the Department should stand as an ordinary creditor in relation to the guaranteed redundancy liability, ie they should be able to claim the liability out of the residual assets of the company. We cannot prejudice the commercial freedom of the company at the outset. That is the antithesis of what we are trying to achieve by privatisation and could be thought to jeopardise our aim of demonstrating that the new company is standing on its own feet, rather than relying on Government credit. I would like you to agree that we can now make a statement as a matter of urgency, including a reference to the guarantee. The staff have to decide by 24 March whether or not to accept secondment to the company; such a public assurance will increase the likelihood that they will accept since it will show that we do have a degree of confidence in the future company. If the number of staff who do not go into the company is sizeable they will of course be faced with redundancy costs since other jobs are unlikely to be available within the Civil Service for all of them.

I understand your concern about the modest rates of return that are forecast in the Business Plan. But the point surely is that the HRS exists and whether it is privatised or kept in the public sector it is going to cost us money. If we were to retain it as a Government concern expenditure would be likely to continue to exceed income and we should still have to provide it with a new computer, experimental buildings, and working capital. We cannot just make it go away. In privatising it, however, we are limiting the amount of public money

involved to a finite and predetermined sum. I am quite satisfied that this is a better arrangement than the longer term liability we would incur if we were to keep it. The Company is of course being set up as a non-profit-making organisation, and I am sure they are seized with the need to make their income balance their expenditure. But for the Government's part we have saved ourselves the need to make provision for the longer term while retaining the use of a necessary research facility.

I hope this will serve to reassure you that privatisation is a wholly responsible decision in financial as well as practical terms, and that a statement can now be made very soon in the terms of the draft attached to my minute of 18 February to the Prime Minister.

I am copying this letter as before.

Yours ever

MICHAEL HESELTINE

Nicholas Ridley Esq MP

2F

Econ. Pol.

cc AD
JV

NBPM
MS. SB

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
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WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

4th March 1982

Dear Michael

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

I am writing to confirm that I have no objection to your proceeding as you propose in your minute dated 18 February to the Prime Minister.

I am copying this letter to the recipients of yours.

Yours ever

Nick

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

2

Prime Minister

Relevant to E(NI) on Monday.
MCS 3/3

MT

PRIME MINISTER

At E(NI) on 2 November, sponsor Ministers were asked to circulate to the Sub-Committee draft objectives for their nationalised industries.

I attach drafts for my two industries, British Airways and British Airports Authority, which my officials have prepared in consultation with the Treasury and CPRS.

The objectives are in approximate order of importance, though to avoid over-theoretical debate, I would not want to say that too explicitly. While we have aimed to minimise potential conflict between them, if this were to occur, we should expect the Chairmen to achieve a reasonable compromise between them, attaching less weight to those lower down the list without sacrificing them completely.

It might for example be arguable whether for British Airways we should put privatisation ahead of profitability, and Sir John King may have views on that when I come to discuss the draft with him. I think I have in fact put them the right way round both because for the industry, with no social or other reason for subsidy, profitable operation must be a cardinal objective; and because a much clearer prospect of profitability will be essential before we can proceed with privatisation. The wording also leaves open the possibility of disposing of some of British Airways' assets separately, if we judged that to be desirable at any stage.

The objectives do not attempt to tell the industries what strategy they should adopt in order to meet the other goals. This is in my view both right and in accordance with the CPRS' original ideas under which these matters emerge from the corporate plant discussions. I am asking British Airways, in their corporate plan, to include an examination of alternative strategies.

While I think these draft objectives are broadly right, I shall be ready within reason to adapt them to take account of the views of the industries in order to reach a consensus about the goals to which they are committed to work. I am sure this is the right approach. (It is also a reflection of the realities of the statutory position. Except in certain cases where there is a specific statutory requirement, I have no power to impose objectives on my industries, and I expect that other sponsor Ministers will be in a similar position. As you know, I am currently preparing my defence against the legal action brought by a number of airlines who allege that I exceeded my statutory powers in establishing a financial target for the British Airports Authority).

Unless my colleagues have major points on these drafts I would hope we could clear them by correspondence, especially as I should like to discuss them with the Chairmen as soon as possible. Could I therefore ask that any comments should be sent to me by 10 March.

I am copying this minute to members of E(NI), Sir Robert Armstrong and Mr Ibbs.

WJB

W.J.B.

Department of Trade

3 March 1982

Nat Gas

Chancellor of the Duchy of Lancaster

cc AD
JV

PRIME MINISTER

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

Michael Heseltine sent me a copy of his minute to you of 18 February, proposing the privatisation of the Hydraulics Research Station. I would not wish to dissent from what he proposes.

It would be helpful if the Staff Transfers Unit of the MPO could be notified early of any staff who are not to be offered, or do not wish to accept, employment with the new organisation so that we can if possible redeploy them to other work. However, it will be very difficult to place scientific staff in alternative Civil Service posts (except perhaps for some mathematicians).

I am copying this minute to the recipients of Michael Heseltine's.

Janet Young

BARONESS YOUNG
1 March 1982

OBJECTIVES FOR BRITISH AIRPORTS AUTHORITY

Within the regulatory framework governing air safety, the limitation of the effect of aircraft noise, security and other aspects of civil aviation established under civil aviation legislation and subject to other relevant legislation, to operate plan and develop its airports in accordance with the Government's airport policy and the following objectives:

1. To respond to the present and future needs of air transport in an efficient and profitable way.

2. To aim to earn the target rate of return on net assets agreed with the Secretary of State from time to time.

3. To keep within the external financing limits set by Government.

4. To improve operating efficiency and reduce costs consistently with the maintenance of an acceptable level of service to air travellers, in line with the best practice of other airports in the UK and abroad.

5. To achieve the specific performance aims agreed from time to time with the Secretary of State.

6. To retain the separate identity of the Scottish Airports Division and to move towards break-even in real terms within the period covered by the present agreed financial target.

/Cont'd...

7. In accordance with Section 3 of the Airports Authority Act 1975 to ensure that in planning and carrying out capital investment, the Authority acts (as regards investment programmes, investment appraisal techniques, required rate of return etc) on lines settled from time to time with the approval of the Secretary of State.

8. To provide adequate facilities for consultation, with airlines, other users of its airports, local authorities and organisations representing local residents, and its employees about matters affecting their interests.

9. To keep charges for airport services to the minimum necessary to achieve the foregoing objectives.

10. To encourage improvements in the range and quality of services provided by other organisations at its airports to air travellers, cargo shippers and airlines.

11. To act subject to the above objectives with due regard to the long term interests of UK suppliers and in particular to their international competitiveness.

12. To market its skill and experience in operating and developing airports and thus generate increased export opportunities for UK consultants, contractors and suppliers.

OBJECTIVES FOR BRITISH AIRWAYS

Within the regulatory framework governing air safety, air fares, aircraft noise, security and other aspects of civil aviation established under civil aviation legislation, to operate such air transport services and undertake other activities in which the Board has power to engage in accordance with the following objectives:-

1. To achieve commercial profitability on both airline and non-airline activities and the target rate of return on net assets determined by the Secretary of State under Section 13 of the British Airways Board Act, 1977.

2. To bring British Airways as quickly as possible into a condition in which the Government can privatise it in whole or in part.

3. To prepare for the Secretary of State a plan describing a corporate strategy, with a timetable and possible alternatives, for achieving objectives 1 and 2.

4. To keep within external financing limits set by the Government.

5. To improve operating efficiency and reduce costs to the levels of the most efficient carriers, so that British Airways is able to compete effectively with other British and foreign airlines.

6. To achieve the specific performance aims agreed from time to time with the Secretary of State.

7. In accordance with Section 12 of the British Airways Board Act 1977 to ensure that, in planning and carrying out capital investment, British Airways acts (as regards investment programmes, investment appraisal techniques, required rates of return etc) on lines settled from time to time by the Secretary of State.

8. To recognise in its planning Government policy of seeking more competition in air services.

9. To act, subject to the above objectives, with due regard to the long term interests of UK suppliers and in particular to their international competitiveness.

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE

Note
Spoke David Edmonds & told him PM had approved subject to agreement with colleagues.
He will ring once they have settled with the Treasury and I will then write.
MCS 3/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1

26 February 1982

Dear Michael

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

Thank you for your letter of 8 February about the Hydraulics Research Station (HRS). I have also seen your minute to the Prime Minister of 18 February.

It goes without saying that I share your objective to privatise the HRS, and am as keen as you are to see a further announcement of our intentions as soon as possible.

I feel I should first comment on the report you have received from the HRS Shadow Board. You say that you find this encouraging, confirming that the HRS should be viable in the private sector. I am afraid that the business plan which I have seen looks rather less reassuring. Even on its "central" estimates, which I fear are rather optimistic, the plan shows the HRS tottering out of deficits in 1982-83 and 1983-84 into tiny surpluses in 1984-85 and 1985-86, only to fall back into deficit in 1986-87. The HRS's "pessimistic" projections, which may well be more realistic, show the company in deficit throughout.

Once we have moved the HRS into the private sector, this will be primarily the company's problem, not ours. I am sure you will be impressing on the Shadow Board the need to find all possible ways of improving on the prospects in the plan, including ways of reducing the costs of running the HRS. It may be that they could make do with fewer staff, or make other economies. No doubt you will also be impressing on the HRS that if they run into trouble, there can be no question of further government assistance beyond that already agreed. I take all this as read.

I think we also owe it to ourselves to have another look at our own investment. We are planning to invest several million pounds worth of public money by giving the HRS a generous endowment of assets, working capital, and a guaranteed research programme. We decided on this course

before we had seen the business plan. Now that we are confronted with such a disappointing prospectus , it is only right to pause and take stock.

Even as constructed, the business plan shows no prospect of our public investment earning (for anyone) a reasonable return. Moreover, the surpluses and deficits shown in the plan are before allowing for (notional) interest charges. At no time would the HRS be viable after allowing for such charges. This means that the HRS will be earning a negative economic return on the capital we shall be putting into it. The implication is that the capital could be better employed in other uses.

I do not want to second guess the decisions of you and the Shadow Board. But while the trading risks are a matter for the HRS itself, the risk of committing capital to a negative rate of return is one for us. I should therefore be grateful to know what steps we might reasonably take, in the light of the new information which has become available, to minimise that risk.

There are, for example, plans to give the HRS a new computer costing £2 million in 1982-83, and a new office block costing £1 million in 1983-84. I can see that the HRS may need computer facilities if it is to compete at all; but on one of the HRS's projections, only two-thirds of its new capacity would be used. It may be that there is scope for some marginal trimming there. And I can't help wondering whether we should still be promising an office block. I should welcome your views on this.

Turning to the question in your letter of 8 February, I am prepared to agree to the guarantee you are seeking, subject to two important conditions.

a. The guarantee should run for two years only, starting from 1 April 1984 (the end of the secondment period) or, if earlier, from the date of expiry of the last offers of employment to seconded civil servants.

b. It must be agreed that, in the event of liquidation, the Government has a right to claim in respect of liabilities incurred under the guarantee, preferably as a secured creditor. I should be grateful if you could consider urgently how this may be achieved.

The effect of the first condition will be that the staff of the HRS will be covered, either directly as civil servants on secondment or under the terms of the guarantee, for a period of between two and four years, depending on how soon after incorporation the company makes formal offers of employment. The Shadow Board's suggestion of 5 years is not acceptable since it would extend well beyond the period in which the Government could reasonably be expected to retain any residual obligation in respect of its former employees. And by then the company's fortunes will, as I have already suggested, be mainly the consequence of its own actions. I therefo consider that a guarantee lasting two years after the staff cease to be civil servants is the most we can contemplate.

I should be grateful if your officials could ensure that mine are kept in touch with the nature and timing of any proposed approach to your unions on this matter, so as not to cross wires with the discussions at national level.

Once we have cleared our lines on the points in this letter, I should of course have no objection to your making a Parliamentary announcement as you propose.

I am sending copies of this letter to those who saw your minute of 19 February.

Yours ever
Nicholas

NICHOLAS RIDLEY

10 DOWNING STREET

Michael Scholar

I have told the FST to weigh in smartly if they disagree with this.

MT
23/2

010

See attached
MPS. also

PM/82/13

PRIME MINISTER

Privatisation of the Hydraulics Research Station

1. Michael Heseltine wrote to you on 18 February about this.

2. My officials have worked very closely with officials of the Department of the Environment and I would welcome the House being informed of the outcome in the terms of the draft written PQ and answer. This is subject, of course, to Treasury agreement on the redundancy payment issue.

3. I am copying this to Michael Heseltine and to the other recipients of his minute.

C

22 February 1982

(CARRINGTON)

cc BI
MAP

Yes MT

Prime Minister

Content, subject to colleagues' agreement, with these arrangements?

MCS 18/2

(1)

SECRETARY OF STATE FOR THE ENVIRONMENT

Prime Minister

18 February 1982

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

Early in 1981 I undertook, after consultation with colleagues, to seek to privatise the Hydraulics Research Station. I am now well on the way to completing this exercise and it is my intention that the organisation will be trading as a company limited by guarantee from 1 April 1982. I thought it might be helpful to colleagues for me to set down the basis on which the privatisation will now proceed.

After a preliminary investigation by officials, I set up a Shadow Board to act on behalf of the prospective company and to advise on details. I announced this to the House in my written answer of 17 July 1981. The Shadow Board has now confirmed that, subject to certain financial conditions, the research station can be viable within the private sector. The Board has also drafted the appropriate Memorandum and Articles of Association for the company, produced a business plan, and identified suitable guarantors.

It is clear that the organisation will be viable only if it is launched free from financial encumbrances. I have therefore agreed with Treasury colleagues that the existing site and assets should be transferred free of charge to the new company, and that working capital of up to £1m should be provided. These arrangements do not represent a new call on public resources: the assets will continue to be used to provide a necessary service to government and the private sector, and the working capital is already tied up in the business. Furthermore, as the company is unlikely to be profitable in the early years, I will be providing some £3.6m to finance the purchase of certain major capital items which would be required whether or not the Station were privatised. My Department will continue to support research under contract at the Station, but I have no intention of supporting the new organisation with any form of subsidy or grants in aid. The only issue outstanding is the need to provide for the contingent redundancy liability should the company have to be wound up during its early years. I am in touch with the Financial Secretary on this point.

In order to help ensure a smooth transfer I am proposing to offer all 260 staff secondment to the new company for up to 2 years. This will give ample time to negotiate new terms and conditions of service for the employees and the Business Plan suggests that the company will have a sufficient revenue to offer permanent jobs to about 80% of the staff.

The Shadow Board have agreed that the company should offer jobs on terms and conditions of service which, taken as a whole, are no less favourable than those in the Civil Service. This is a necessary condition if we are to avoid the high cost of making redundancy payments, for if the staff were offered less favourable terms they could claim redundnacy compensation. We could then face the embarrassing prospect of having ex Civil Servants doing the same jobs at the same location each having collected a lump sum from the Exchequer to compensate for loss of Civil Service status.

The concept of a company limited by guarantee is an ideal vehicle for a transfer like this, where it would be inappropriate to attempt to create equity shareholdings. In this case the members of the company will be the professional bodies, commercial associations, and institutions involved in the field of civil engineering and hydrualics. The organisation will continue to carry out a substantial volume of work for the government and I consider it appropriate therefore for one or two government Departments to join the company as members. I intend also to nominate a member of the Board to the company. I do not think it necessary or desirable for the Government to sever itself completely from the organisation provided, of course, that control is transferred into private hands.

The present timetable does not allow private guarantors to be secured by 1 April, though they can probably be found by say, 1 August. In order to get the company trading as soon as possible, therefore, I am arranging for it to be registered in the name of the Secretaries of State for the Environment and for Foreign and Commonwealth Affairs (the latter in recognition of the ODA's close association with HRS). Non-governmental members will, of course, be brought in as soon as possible and the Government's special position as founder member will cease at the time of the first Annual General Meeting, which I expect to be held in the early summer. However, we need to recognise that the company will not be fully private until the end of this transitional period, and during that short time it will appear on my Department's list of non-departmental public bodies.

In summary I intend that the organisation should trade as a company from 1 April 1982; control will be passed to non-governmental guarantors in the summer; and the assets and staff will be wholly transferred within two years. After that transfer HRS will become a private organisation and its relationship with government will thereafter be that of any research contractor.

I think it would be desirable for me to inform the House as quickly as possible of the steps which I am now taking to implement the privatisation and I would be grateful if colleagues would agree for this purpose to the terms of the attached Written PQ and Answer. I recognise that one point in the Answer - agreement to guarantee for a period redundancy payments to the levels to which the staff are at present entitled in the event of the company's failure - is dependent upon Treasury agreement on which, as I say above, I am in touch with the Financial Secretary. The point is an important one for the Shadow Board and the staff and without such a guarantee I doubt if I will be able to proceed.

I am copying this letter to the members of E Committee, the Lord President, the Chief Whip, and Sir Robert Armstrong.

MH

MH

(minute approved by the Secretary of State and signed in his absence)

2F

DRAFT PQ

To ask the Secretary of State for the Environment if he has yet received the report of the Shadow Board set up to advise on the privatisation of the Hydraulics Research Station.

ANSWER

The Shadow Board presented their first report in late January and I am most grateful to the Chairman, Sir Alan Harris, and his colleagues for what they have been able to do. Their report has confirmed that subject to certain financial conditions being met the HRS would be viable as a company limited by guarantee in the private sector. These conditions relate to the free transfer of assets; assistance for the provision of capital equipment and working capital so that the company can start in the private sector without any residual finance encumbrance; and a guarantee to cover the contingent liability to redundancy payments in the very unlikely event that the company has to cease trading after only a few years.

I am glad to say that the Government is able to meet all these conditions and I have therefore asked the Shadow Board to proceed with arrangements to incorporate the company as from 1 April 1982. My expectation is that within a few months it will be possible to secure appropriate professional institutions as guarantors of the company. But in order to arrange that it can

start trading without delay it is being registered as an interim arrangement in the names of the Secretaries of State for the Environment and for Foreign and Commonwealth Affairs. It will thus temporarily be a non-Departmental public body.

The Shadow Board are also negotiating with the staff the terms and conditions of service that the company be recommended to offer. In order to allow proper time for this to be concluded satisfactorily all existing members of the HRS staff who wish to go will be seconded to the company. The Shadow Board have recommended that the company should make offers on terms and conditions which when taken as a whole are no less favourable than those in the Civil Service.

I am convinced that a newly constituted HRS in the private sector will continue to enjoy its high reputation as an international centre of excellence for civil engineering and hydraulics and that it will prosper free from the constraints of a Government Department.

Mr Whitmore

26

Gen PA

10 DOWNING STREET

From the Press Secretary

26 February 1982

Dear David,

I don't often complain and I don't want to get a reputation for doing so. But having failed to get you on the 'phone today, I thought I ought to let you know I feel rather badly used by today's story of a Government probe into the Amersham sale.

At 12.55 you reported "a top level Government inquiry". This was repeated at 1.00 pm and at 3.00 pm you reported that a full report into the affair had been ordered by Mrs Thatcher.

What I said at Lobby at 11.00 am was that inevitably there would be some kind of inquest involving the Treasury and Energy with the latter in the lead. The Prime Minister had not called for any inquiry but would no doubt see any report that was produced. It was common form in these circumstances to take stock and try to draw lessons.

In short, the whole tenor of my briefing was to play down the idea of an inquiry. Yet what we got on tape was a top level inquiry ordered by the Prime Minister.

I feel bruised, especially as my people tried at least twice with yours to get it put right.

Yours sincerely

Bernard

B. INGHAM

David Chipp, Esq.,
Editor in Chief,
Press Association.

CONFIDENTIAL

Econ Pol

✓ MAP.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

18 February 1982

Dear David

NATIONAL FREIGHT COMPANY

Your letter of 16 February was excellent news. We all congratulate you on seeing the sale through successfully, so maintaining the momentum of our privatisation programme with a major disposal. I am quite content with your proposed PQ.

I am sending copies of this letter to the Prime Minister, Francis Pym, Michael Jopling, Members of E(DL) and Sir Robert Armstrong.

Yours ever
Nicholas

NICHOLAS RIDLEY

2

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

MT 16/2

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

16 February 1982

Dear Secretary

NATIONAL FREIGHT COMPANY

I am sure that you will be pleased to hear that the consortium of managers and employees of NFC have been able to raise the necessary funds to enable the sale of NFC to them to go through.

I hope to complete the business within the next week or so. I enclose a copy of the written statement I hope to be able to make to the House this Friday.

I am sending copies of this to the Prime Minister, Francis Pym, Michael Jopling, the other members of E(DL) and Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

CONFIDENTIAL

CONFIDENTIAL

DRAFT PARLIAMENTARY QUESTION AND ANSWER (For possible answer on Friday 19 February)

Q. To ask the Secretary of State for Transport what progress has been made towards the sale of the National Freight Company.

A. I am delighted to be able to announce that the sale of the National Freight Company Ltd to the National Freight Consortium, limited company, public/has been completed today. The new company was formed by the managers, employees and pensioners of NFC specifically with the objective of taking control of their company by purchasing the equity from the Government. They have succeeded in raising the agreed price of £53.5 million. The deficiencies in the NFC's pension schemes will be funded from the proceeds of sale, as provided for under section 49 of the Transport Act 1980. After allowing for this the net payment to the Government will be some £6 million.

CONFIDENTIAL

CONFIDENTIAL

cc LPO
CWO
Press
Econ. Policy

HL

10 DOWNING STREET

From the Private Secretary

9 February 1982

Disposal of Amersham International Ltd.

Thank you for your letter of 8 February.

As discussed on the telephone, it is not possible to answer a Question early on the basis outlined in your letter. This is the result of Mr. Speaker's ruling shortly before Christmas.

The Lord President is now considering ways in which it might be possible to release Answers early in the day, in exceptional circumstances, in the future, but for the reasons which I explained to you, this would be inappropriate in the present case.

In view of the stories on the front and back pages of today's Financial Times, it seems that your hopes of avoiding leaks have already come to nothing. But if this still makes it impossible for you to answer an ordinary Written Question at 3.30 tomorrow, we suggest that you proceed on the basis of releasing the Answer as late in the day tomorrow as suits your purpose.

I am sending copies of this letter to David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office) and Bernard Ingham (No. 10 Press Office).

M. A. PATTISON

D.J. Watts, Esq.,
Department of Energy.

SR

CONFIDENTIAL

CONFIDENTIAL

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
01-211 3932

M Pattison Esq
10 Downing Street
London SW1

8th February 1982

Dear Mike

DISPOSAL OF AMERSHAM INTERNATIONAL LTD

I am writing to seek approval to an Answer to a Parliamentary Question being given at 10.30 am rather than at the usual time of 3.30 pm.

As part of the Government's disposal programme, next Wednesday (10th) we start the process of offering on the Stock Exchange all the shares in Amersham International presently wholly owned by the Secretary of State. The Annex is an extract from our timetable.

By means of a PQ Answer given on the 22 December, Parliament and the staff of Amersham were informed that the offer for all the shares would take place in the early part of this year. We need to make provisions to inform Parliament as soon as possible after the offer starts to get underway on the Wednesday. This points to an Answer being given at 3.30 that day. However, the risk of adverse comments by Opposition Members later in the day during what is a highly critical time for the underwriters could cause nervousness on their part. This runs the risk of the underwriting price being lowered which would both reduce the proceeds of the sale if unsuccessful and would create lack of confidence in investors, particularly the Institutions. This would clearly be damaging and against the national interest. We have been urged by our City advisers to avoid this.

The Answer might alternatively be given at 3.30 on the following day. However, because of the widespread underwriting consultations that will have taken place, the City will be fully aware of the flotation by 9.00 am, and we expect the noon edition of the London evening paper to carry a detailed report which of course Hon Members will see in advance of the Answer. Also, the company management are very keen to make an announcement to their staff early that morning telling them:-

a. that their company is about to be sold (they do not know the date); and

b. that they must make a move within the next 6 days to arrange finance and apply for shares including those the Government are offering them.

It is expected that the news media and brokers (over which of course we have no control) will contact the company including the staff and their trade unions during the morning, and the surprise that this will cause could seriously damage staff relations. This could in turn adversely affect the all important City comment on the attractiveness of the offer and the success of the Government's employee shareholding offer.

The arranged Ordinary Written Question would be tabled on Wednesday 10th and would simply ask the Secretary of State for Energy whether he had anything further to say on the disposal of Amersham, and it is proposed that he would reply that the disposal had started and would give details about eg the timetable, the method of sale, the expected price, and the Government's employee shareholding offer.

We are aware of the sensitivity of the House to information becoming public before the House has been informed, and we see no alternative to the Answer being given at 10.30 on the Thursday. The giving of an Answer at that time was agreed in the cases of Cable and Wireless and British Aerosapce last year. I should be grateful if I could therefore have early agreement to the Question being answered at 10.30 am on Thursday 11 February on the understandings that:-

a. Amersham's management will make no announcement until we have confirmation that the Answer has been given at 10.30 am;

b. we will do our best to avoid leaks before then.

I am copying this to David Heyhoe at the Lord President's office and to Murdo Maclean, Chief Whip's Office.

Yours sincerely

Alan Rowe

D J WATTS
Private Secretary

ANNEX

Wednesday 10 February

p.m.	Arranged PQ Tabled
14.00	Company Board sign offer for sale Agreement.
16.00	Discussions on underwriting start.

Thursday 11 February (IMPACT DAY)

9.00	Parties confirm no exercise of force majeure.
9.30	Brokers commence underwriting.
10.30	[P.Q. Answered].
10.30	Amersham's 1500 staff at 3 sites in UK told that the Offer is underway and that they should move quickly to secure shares under the Government's employee shareholding scheme.
12.00	Brokers report on the success of the underwriting.
15.30	City press announcement and press conference reporting on the offer and the (successful) underwriting.

Econ Pol

010

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ
01-211 3932

MAP to see.

1a. NBPM

MLS 5/2

The Rt Hon Francis Pym MP
Lord President of the Council
Privy Council Office
Whitehall
London
SW1A 2AT

5 February 1982

Dear Francis

AMERSHAM INTERNATIONAL LTD (FORMERLY THE RADIO CHEMICAL CENTRE LTD)

We are now about a week away from the planned date for the public offer of Amersham International's shares. In the run up to the flotation and during the two week period of the offer there is a danger that Ministers might make comments about Amersham International which, while innocuous in any other circumstances, might be taken by prospective purchasers as relevant to the flotation and which could in the extreme result in the withdrawal of the Prospectus or render the Government liable to legal proceedings for misrepresentation.

I attach a note, prepared by the Department of Industry's Solicitors and by City legal advisers, setting out the legal position. It was prepared in connection with the disposal of Cable and Wireless and has been slightly adapted to this case by our lawyers. In it Amersham is referred to as AIL. I should be grateful if you, and all colleagues to whom I am copying this letter, could consider it carefully and exercise particular care in making comments or statements in respect of Amersham International in the period until the flotation is complete. This applies both to statements in the House and those made elsewhere.

There is a further and wider dimension to be considered. The success of the flotation will be best pursued if it is presented to the investing world in very much the same way as any other large issue and through concentration on the financial merits of Amersham International rather than on the political controversy associated with privatisation. I therefore strongly counsel that we should avoid any statement in respect of Amersham International likely to awaken the political controversy that is never far from the sale of public sector assets. Until the flotation is completed, (ie until the end of February) I hope that the Government as a whole will take a low profile on this subject.

I am addressing this letter to you in the light of your responsibilities for Government information. I am copying it, with the attached note, to the Prime Minister, to other members of Cabinet and of E(DL), to the Chief Whip, to the Paymaster General and to Sir Robert Armstrong.

Yours ever
Jim

JOHN MOORE

LIABILITY OF THE GOVERNMENT FOR STATEMENTS MADE OTHER THAN IN THE PROSPECTUS

A purchaser of shares may be able to claim some form of relief on the grounds that he was induced to enter into the contract to purchase by a misleading statement. The liability may arise whether the misrepresentation was made fraudently, negligently or even wholly innocently.

The misrepresentation must be material ie it must be one that would affect the judgment of a reasonable man in deciding whether or not to enter into the contract, and the representee must show that he relied upon the misrepresentation in deciding whether to enter into the contract. (In practice, however, it is difficult to maintain a defence that the misrepresentation was immaterial or that the representee did not rely on it). It is sufficient if the misrepresentation was only one of several inducements to enter into the contract. Despite the fact, therefore, that the Prospectus, which will be carefully vetted, may be read by prospective purchasers they may also have relied upon mis-statements made otherwise than in the Prospectus, for instance by Ministers in Parliament or outside. The closer to the issue that statements are made the more likely it is that a purchaser will be able to show that he relied upon such statements. It also seems likely that the risk of purchasers relying on such statements would be magnified in the case of employees who, it is thought, would be more likely to decide to buy shares because of the statements of Ministers than because of a careful study of the Prospectus.

The general rule is that the liability will arise only where the misrepresentation involves a mis-statement of existing fact. There

may be no liability, therefore, if the statement falls into one of the following categories:

(i) Mere Puffs

ie sales patter, eg AIL provides excellent radiochemical products.

(ii) Statements of Opinion

Some statements of opinion give no rise to liability either because they are mere puffs or because the maker of the statement had, as the other party knew, no personal knowledge of the facts on which he based his opinion, and it is understood that he could only state his belief. Eg if a Minister stated that in his opinion AIL would be even more successful in private ownership it would be understood that this was his belief and he could have no knowledge of whether it would in fact be more successful.

However, where the opinion is or appears to be based on facts particularly within the knowledge of the maker there may be a misrepresentation because the maker has implied that he has reasonable grounds on which to base his opinion. Eg if a Minister states that it is his belief that AIL will gain many new and profitable contracts as a private sector company he may be taken to have represented that he knows as a fact that new contracts are ready to be concluded with the new company. If this is not so there may well be a liability for a misrepresentation.

It should be stressed that in the case of Ministers giving opinions on the new company there is a particular risk that they will be believed to have a knowledge of facts on which the opinion is based. The very fact that it is a Minister speaking will lend a certain authority to the statement. What may genuinely be merely a belief of a Minister, therefore, may not be recognised as such and he may be believed to have based his opinion on facts which are not in his possession.

(iii) Statements as to the Government's Future Conduct

A promise to do something in the future may be nothing more than a statement as to the present intention of the maker's future conduct. If so, the maker of the statement does not misrepresent a fact merely because he fails to fulfil the promise. It will however be a misrepresentation if the maker does not in fact have the intention of fulfilling the promise at the time he makes the statement. It must be stressed that a statement of intent as to future conduct if carelessly made may lead to serious consequences and there may be some difficulty in showing that a Minister actually had the intention when he made the statement.

(iv) Statements of Law

Statements which contain an error purely of law (such as an incorrect interpretation of a statute) will not give rise to legal liability on that account alone. However, a statement that a statute applies to a certain set of facts which are themselves incorrect may amount

to a misrepresentation of fact giving rise to liability on the principles stated above.

Conclusion

In every case it will be a question of fact to be judged by the Court whether the grounds stated above are satisified in order to give rise to a liability for a misleading statement. There is frequently a fine distinction to be drawn in deciding whether a misrepresentation was in fact material. Likewise it is often difficult to conclude whether the statement was a mere puff or in fact a misrepresentation of existing fact; whether the maker of an opinion was understood only to have been stating his belief or to have based his opinion on facts within his knowledge; or whether at the time he made a statement as to his future he did have the intention of fulfilling his promise.

The best advice to Ministers is that they should confine their remarks to:

(a) statements of published facts eg AIL's past profits;

(b) statements on matters within the Government's control; or ~~eg that it will stand by its commitments in relation to the liberalisation of BT's networks; or~~

(c) statements which are clearly expressions of opinion or belief, rather than factual forecasts eg that AIL's chances of success are better in the private sector than in public ownership.

Ministers should avoid statements which are of opinion or belief but which may appear to have some factual basis eg predictions about

the successor company's level of profits or dividend performance in future years. Again, it must be remembered that statements of belief by Ministers may be relied upon because they may be believed to have firm facts on which to base their opinions.

Ministers should also avoid statements which only partially disclose facts. As a general rule there is no duty to disclose material facts. However, to reveal some facts, all of which are true, but to fail to reveal other facts which affect the weight of those stated and make the statement misleading may be a misrepresentation.

Finally, it should be pointed out that statements true at the time they are made may cease to be true later. If the statement is not corrected it may be a misrepresentation. Ministers should, therefore disclose any facts which falsify statements previously made by them.

Econ Pol JV AD.

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

MS

Prime Minister (2)

MCS 29/1

Rt Hon Sir Geoffrey Howe QC MP
HM Treasury
Parliament Street
LONDON SW1

29 January 1982

Dear Geoffrey

DISPOSAL OF PUBLIC SECTOR ACTIVITIES: FURTHER CANDIDATES

In your minute of 23 December you asked Patrick Jenkin, and those to whom your minute was copied, to examine the public sector activities falling within their areas of responsibility for candidates for disposal additional to those identified in the paper considered by E(DL) on 27 November 1981.

There are two Northern Ireland companies in the field (Harland and Wolff, and Short Bros) but both are, frankly, unlikely candidates for early disposal. In view of the company's financial records and in view of its current prospects, I see little likelihood of being able to dispose of all or part of Harland and Wolff on any reasonable terms in the foreseeable future.

Short Brothers is 91% owned by the Northern Ireland Department of Commerce, and 9% by the Department of Industry; it makes commuter aircraft, aircraft components and guided weapons. Its position is a good deal rosier than that of Harland and Wolff, and we will certainly keep under review the prospects of disposing of all or part of the company. There is, however, no prospect of immediate disposal, and I could not venture at this stage to say when disposal might be practicable, or what the price might be.

Copies of this minute go to the recipients of yours.

Yours
Jim

BB

AO
AW
JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

(2)

Prime Minister

MCS 18/1

The Rt Hon Sir Geoffrey Howe QC MP
The Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

18 January 1982

MT

Dear Geoffrey

INTRODUCTION OF PRIVATE CAPITAL INTO BRITISH TRANSPORT DOCKS BOARD

I wrote to you on 3 November about the prospects for early flotation of the BTDB's business and explained the reasons why this was impracticable sooner than May 1982. I proposed to carry out a substantive review of the prospects towards the end of 1981. I have now completed this and am writing to let you and my other colleagues in E(DL) know of its outcome.

This review, in which I have had advice both from the Board and from Kleinwort Benson, has been based mainly on the Board's 1982 budget. If their budget forecast for 1982 could be realised in practice there would, in Kleinwort's view, be a reasonable prospect of realising some £25m-£30m from the sale of 49% of the share capital subject to further

examination of the extent to which, on the one hand, it may be necessary to fund the whole or part of the BTDB's pension liabilities and other provisions (which could cost up to £23m) and to which, on the other hand, it may be possible to sell some debt (up to £20m). Both Kleinworts and the BTDB consider that it would be better to go for flotation in June rather than in May because this would enable better account to be taken in the prospectus of any upturn in traffic in the early part of the year.

These prospects are however heavily dependent on settlement of the industrial dispute at Southampton and, more particularly, on settlement of the dispute with the British Steel Corporation over contractual payments. This confirms the view I have already expressed to Patrick Jenkin as to the importance of seeking an early settlement of this dispute - as long as it continues flotation will continue to be jeopardised.

Actual flotation, if it is to take place in June, will require preparation by the Board for inclusion in the prospectus of a new profit forecast for the year, based partly on audited results for the first four months and partly on a revised forecast for the remainder of the year. The latter will need to take account of the Board's best estimates of results for the rest of 1982 in the light of the trade prospects and other factors as they are then seen. Obviously continued forecasting uncertainties at that time could seriously reduce the valuation of the BTDB's business but settlement of the outstanding disputes and any improvement in the country's trade and industrial relations scene could offset these uncertainties.

I therefore now propose to make all necessary preparation for a flotation in June, so that we will be ready to take the opportunity if the right conditions are available. I should emphasise however that we shall need at that stage

to obtain a revised valuation of the business based on the profit forecasts then current. This will not necessarily be the same as the current forecast based on the BTDB's 1982 budget and if forecasting uncertainties led to a significantly lower valuation of the business we would need to consider, on its merits, the benefits and disadvantages of going ahead then as opposed to a further postponement.

If at that stage we were to decide that the price currently available was unacceptable I would then propose to plan for a flotation in November, by which time it would be possible to base the profit forecast on audited results for the first three-quarters of 1982 and to take a view on whether any upturn in trade, and improvement in industrial relations, was likely to be sustained for the rest of 1982 and into 1983.

I am sorry that I cannot be more definite at this stage about the likelihood of obtaining an acceptable price in June but I believe that we can get the best of both worlds if we proceed now on the basis that we are going for a June flotation because most of the preparation that will be made will still be of value even if flotation has, in the event, to be postponed until later in the year.

In the light of Nicholas Ridley's letters of 18 November and 7 December I should perhaps refer to his points about the alternative course of seeking to dispose of the BTDB's business as a going concern to a single buyer. I must say quite frankly that there seems to me to be no possibility of negotiating a more acceptable price on this basis than if we were to carry through a successful flotation - exactly the same forecasting uncertainties would apply. Apart from that, whatever the theoretical counter-arguments as described by him, it is quite clear from past discussions with the BTDB that such a course would run a major risk of stirring up serious trouble with the unions of a kind which would effectively warn off any potential purchaser. Thanks to

the excellent co-operation that we have secured all along from the BTDB, we have had a remarkably trouble-free run with the unions on the whole question of BTDB privatisation. It is, in my view, simply not worth running the risk of disturbing this situation when we still have the prospect of securing a flotation in accordance with our publicly-stated position in Parliament and elsewhere. It will not help us to secure the result that we (and the BTDB) all want if, on top of all the other uncertainties about trade, we can be accused of going back on assurances about our intentions.

I am copying this letter to the Prime Minister, other members of E(DL) and Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

CONFIDENTIAL

cc. A Duguid
J. Vereker

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

(2)

Prime Minister

MCS 23/12

The Hon Nicholas Ridley AMICE, MP
Financial Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1

23 December 1981

MT

Dear Nick

Thank you for your letter of 7 December 1981. I have taken account of the points you raise in my report to E(DL) on the prospects for disposals, but this letter gives a more detailed response.

I agree that alternative approaches to the disposal of British Transport Docks Board should not be ruled out. If flotation in May does not appear possible, I shall certainly need to discuss alternatives with the Board and with my Merchant Bank advisers, and to review the commitment that the Government will initially retain 51% of the equity. But the co-operation of Board and Unions is vital if the sale is to proceed satisfactorily. The market will be very sensitive to any prospect of Union repercussions in an industry where industrial relations are traditionally unstable. Co-operation has so far been gained because of the commitment to retain 51% of the equity, although we have made clear that we shall not use the shareholding to control or interfere in the running of the business, or retain the shareholding indefinitely.

The strengths of BTDB are the attractive mix of ports, good management and relatively sound industrial relations. The current policy of selling BTDB's undertaking as a single management unit and retaining 51% of the equity is geared to preserving those strengths. I would certainly oppose any

CONFIDENTIAL

suggestion that BTDB's undertaking should be divided. The Unions would also react strongly on this point. In any case, the Transport Act 1981 is not appropriate for a break-up of BTDB at the point of sale. It introduces a two tier structure with the lower tier retaining BTDB's extensive network of statutory powers and duties which are needed to run the 19 ports.

I shall look at the prospects for privatisation of Public Trust Ports in the context of the general review of ports policy. It should not be a straightforward matter as the ports are statutory bodies with statutory obligations which could not be sold in their present form. Primary legislation would be needed to create a structure similar to that for the privatisation of BTDB. It is not at all clear that port trusts would be attractive to potential investors and it would not be advisable to commit ourselves to privatisation of port trusts until progress is made with BTDB and Sealink. I have already renounced certain powers and duties over these ports and the ports have not made any applications for NLF loans under S11 of the Harbours Act 1964 for over a year. Clearly they are already relying on private capital for investment but the Government remains the lender of last resort as recommended by the Rochdale Committee in 1962.

Following Patrick Jenkin's meeting I am reviewing the organisation and prospects for disposal of British Rail Engineering Limited (BREL). As a first step, I have arranged a meeting with the Chairman to discuss the reshaping of BREL and explore the opportunities for introducing private capital.

I am copying this to the recipients of your earlier letter.

Yours ever

David

DAVID HOWELL

2F

CONFIDENTIAL

AD
AW
JL

Prime Minister (2)

MCS 24/12

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

SECRETARY OF STATE FOR INDUSTRY

DISPOSALS OF PUBLIC SECTOR ACTIVITIES: FURTHER CANDIDATES

On 27 November E(DL) considered a paper (E(DL)(81)17) by the Financial Secretary on the prospects for special disposals in 1981-82 and later years. This identified a number of candidates for disposal on which work was in hand or might profitably be put in hand. The Committee agreed that the Ministers concerned should report to the Financial Secretary by mid-December on each of them.

2. Some such reports have yet to arrive: I hope that they will not be further delayed, since it is important to maintain the momentum of our programme for reducing the size of the public sector.

3. E(DL) also agreed that Ministers should make every effort to identify candidates for disposal in addition to those listed in E(DL)(81)17, and I should be grateful if you, and the wider circle of those to whom I am copying this minute, could arrange to review the possibilities within the areas for which you are responsible. You will no doubt have your own views on which areas are most likely to repay examination. But it might in particular be worth focussing on undertakings which are not at present profitable but might become so later on, and on other enterprises whose disposal is at present being held up for reasons which might prove temporary. This approach, i.e. early disposal by direct sale rather than nursemaiding back to recovery, was strongly pressed on us at a recent seminar with industrialists, the City and academics. In addition it is often worth disposing of unprofitable concerns, even for little

or no money, in order to avoid meeting their losses in future. It would also be worth looking at different means of disposing of various bodies; there may, for example, be cases where disposal of an undertaking in one piece is not practicable, but where it may be possible to dispose of parts of it, e.g. through the sale of subsidiaries.

4. I should be grateful if this second batch of reports could reach the Financial Secretary by 8 January.

5. Copies of this minute go to the Prime Minister, to our E(DL) colleagues, to the Secretaries of State for Northern Ireland, Scotland, Wales, Defence, Transport and Employment, and to Sir Robert Armstrong.

(G.H.)

23 December 1981

CONFIDENTIAL

from PM

cc AD
AW
JV

(2)

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG MCS 7/12

The Rt Hon David Howell MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1A OAA

7 December 1981

Dear David

INTRODUCTION OF PRIVATE CAPITAL INTO BRITISH TRANSPORT DOCKS BOARD

Thank you for your letter of 30 November setting out some of the difficulties you might encounter in seeking to dispose of more than 49% of the equity of the British Transport Docks Board.

In suggesting that such an alternative should not be ruled out in the assessment you are preparing for E(DL) on the prospects for disposals in 1982 (whether by flotation or otherwise). I was of course aware of these problems and also that, after expressing considerable unease, E(DL) colleagues had accepted that in the interests of an early flotation only 49% of the equity should be sold in the first instance. But there are important counter arguments which have to be borne in mind, particularly if the preferred route of flotation is unlikely to be possible in the short term. In particular,

(i) a majority shareholding remaining in the public sector is both unnecessary and difficult to defend. If we publicly forego control and state our intention to make further sales - as we must if we are to make privatisation a reality rather than a book-keeping transaction - it is hard to see that a 51% shareholding will cut much ice with the unions or the Board;

(ii) the unions and the management cannot be given a veto on how assets are to be disposed of. Legislation has been passed giving the Government powers to dispose of these assets and it must exercise those in the way it thinks fit;

(iii) finally, it is not clear that a break up of the BTDB need be undesirable, indeed it might be positively beneficial by increasing the degree of competition in the ports industry.

Perhaps I could also take this opportunity to comment on the two other points raised in your letter of 26 November to the Chancellor before you put forward proposals on these items to E(DL) as agreed at the last meeting.

On BREL, you know my views. There is no reason to believe that we shall be any more successful in the future than we have been in the past in attempting to press BRB to rationalise BREL. Only privatisation will provide the stimulus and discipline on performance which is now so patently lacking. I hope therefore that you will set out for the Sub-Committee the steps you are taking in the light of our agreement at Patrick Jenkin's meeting to commission a report to start as soon as possible exploring the practical aspects of the reorganisation and disposal of BREL. Until we have seen that report, I do not think we can conclude that there is little prospect of privatisation.

Finally, on Public Trust Ports you seem to be suggesting that a change in their status is purely a public expenditure classification problem and not a privatisation issue. I cannot agree. A renunciation of the powers and duties which you have over these ports, together with their access to the NLF for investment funds, is surely an aspect of privatisation in its widest sense of exposing as much as possible of the economy to the disciplines of the market. However, I understand that privatisation was an issue specifically identified by E(EA) in commissioning a report on ports policy and that may be the best context in which to pursue it.

I am copying this letter to the Prime Minister, other members of E(DL) and Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

S/ AD AW JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

(2)

Prime Minister

MCS 4/12

The Hon Nicholas Ridley AMICE, MP
Financial Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

30 November 1981

MT.

Dear Nick

INTRODUCTION OF PRIVATE CAPITAL INTO BRITISH TRANSPORT DOCKS BOARD

Thank you for your letter of 18 November. I agree that if the December review with the Board and the merchant bankers suggests that a market flotation in May 1982 is likely to be impracticable we should consider the possibility of negotiating with a single buyer. Before raising this possibility with the Board however, I would need to discuss with my colleagues some of the problems I might encounter in handling such a proposition with the Board and their unions.

The Board have always pressed for the sale of less than 50% of the equity partly because of the industrial relations risks mentioned below and partly because of their great concern that a significant block of shares might be acquired by a major shipping line (or a consortium of them) which would then be in a position to exercise pressure on management to favour its own interests in particular ports. I believe that their fears on the latter point are exaggerated, but this does not mean that we can ignore the strength of the Board's objections since we must rely on their co-operation to ensure a successful flotation or sale.

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The Board's concern about industrial relations was based on a firm view that their Unions would see the Government's commitment to retention of a majority shareholding, coupled with safeguards against break-up of the undertaking, as a necessary safeguard for the workforce. They maintained that this was the only way in which they could avoid trouble with the unions over the privatisation exercise. They have so far successfully carried the unions with them and I believe we can ascribe the lack of real opposition from the unions (and indeed of any industrial action related to privatisation) to our commitment, frequently stated in the House, to the retention of 51% of the equity.

Thus I cannot agree that the arguments for retention of the majority shareholding were "finely balanced". They were in fact heavily weighted towards the course we chose. If when we review the position next month early flotation appears unpromising, then the issue I shall need to discuss with colleagues is whether sale to a single purchaser of only the minority interest seems possible, or whether we should repudiate our commitment to Board and unions and seek to sell a majority holding, withstanding the obvious industrial relations and commercial riaks involved.

I am sending copies of this letter to the Prime Minister, the other members of E(DL), and to Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

CONFIDENTIAL

Prime Minister

(4)

MCS 18/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

18 November 1981

Dear David

INTRODUCTION OF PRIVATE CAPITAL INTO BRITISH TRANSPORT DOCKS BOARD

You wrote to Geoffrey Howe on 3 November reporting your advisers' view that an offer for sale on the basis of the Board's present profit figures and other unresolved problems would be impracticable. This is of course most unwelcome since we had hoped for a contribution from sale of the Board to the 1981-82 disposals target, and, more important, it would have been attractive to keep up the current momentum of the privatisation programme.

I welcome, therefore, your suggestion of a substantive review in December of the prospects for a flotation in May 1982. I think it would be helpful if in that review you could cover the main alternative to a flotation, namely sale to a single corporate buyer. It may be easier to persuade such a buyer to offer a price which satisfactorily takes into account the Board's expectations of rising profits in the future. Someone in the shipping or ports business might also look with a more understanding eye on the impediments to efficiency operation in the industry, for example, the National Dock Labour Scheme.

To explore the possibility thoroughly will of course mean reconsidering the conclusion we were all somewhat reluctantly forced to, that it was necessary for the Government initially to retain a 51% shareholding. But this seems well worth reviewing in its own right - the arguments for such a large shareholding were, I think, always finely balanced.

Finally, I have seen a copy of your letter to Patrick Jenkin about the dispute between the Board and the British Steel Corporation. I hope that it will be possible to resolve this informally rather than in the Courts. But the most important thing is to get it settled soon.

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I am sending copies of this letter to the Prime Minister, the other members of E(DL) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

DSG

CF

file Econ Pol

10 DOWNING STREET

THE PRIME MINISTER

17 November 1981

Dear Patrick,

This is just to say how impressed I was by the way in which the Cable and Wireless flotation was handled. It was a credit to the efficiency of you and your Department, to Eric Sharp and his Directors, and to all in C & W, Kleinwort Benson, and the other Government Departments who worked so hard on the flotation.

As you said in your report, this success is very encouraging. We should press ahead with our privatisation programme, and I hope that future flotations and disposals are as well handled as C & W's.

Yours ever

Margaret

The Rt. Hon. Patrick Jenkin, M.P.

10 DOWNING STREET

PRIME MINISTER

Blind copy
to Wolfson
pl.
MCS.

You may wish to congratulate those involved in the Cable and Wireless flotation. A possible letter to Patrick Jenkin is attached.

S.J. Pike

cc. WR

13 November 1981

CONFIDENTIAL

Econ Pol Public Sector

cc Ag
PN
JV

NBPM

Econ Pol.

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

9 November 1981

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

Dear Patrick

CABLE AND WIRELESS FLOTATION

I have seen your minute of 4 November, and wholly agree that the flotation of Cable and Wireless is a substantial achievement, which reflects considerable credit on those directly involved.

I also agree that the substantial over-subscription is not necessarily a sign that the price was too low. We will have a clearer view when we see how the share price stands when the dust has settled, but the initial premium was a large one. It will I think be important to reflect on whether there are lessons to be learned from the flotation which will help us in getting the best results in similar future cases. I have asked my officials to put some further work in hand.

I am copying this letter to The Prime Minister, other members of E(DL), the Secretary of State for Defence, the Lord Privy Seal, the Paymaster General and Sir Robert Armstrong.

We have already had a brief discussion of this.

GEOFFREY HOWE

Econ Pol.

File

cc MAFF MOD
DOE LPSO
Trade PGO
Energy CO
CSO
FST

ds

10 DOWNING STREET

From the Private Secretary

6 November 1981

Dear Ian,

Cable & Wireless Flotation

The Prime Minister was grateful for your Secretary of State's minute of 4 November about the Cable and Wireless flotation.

I am sending copies of this letter to the Private Secretaries to the members of E(DL), David Omand (Ministry of Defence), Michael Arthur (Lord Privy Seal's Office), Keith Long (Paymaster General's Office) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Ian Ellison, Esq.,
Department of Industry.

ds

AD
AW
JV.
(2)

Prime Minister

MCS 4/11

PRIME MINISTER

CABLE & WIRELESS FLOTATION

As you will have seen in the press, the public offer for sale of just less than 50 per cent of the shares in Cable and Wireless has met with an enthusiastic response from the City and from the investing public despite rather uncertain trading conditions generally in the Stock Market.

2 Just over 133 million shares were offered for sale and there were 337,000 applications for a total of approximately 750 million shares. The offer was thus subscribed by about 5.6 times, excluding the preferential applications made by employees. The level of subscription and the number of applications necessitated a ballot among smaller applicants. Details of the basis of allotment are set out in the attached press notice issued by Kleinworts on 2 November.

3 The offer represented the largest new issue ever made on the London Stock Exchange, bigger by half as much again than the British Aerospace flotation which itself set a new record last February. The Government will receive about £224 million from the disposal of which £35 million will be passed to the company for new investment and £6 million will be set aside to meet the costs of the offer. The net proceeds to Government will thus be about £183 million which is substantially more than we had expected to raise when the prospects for flotation were being considered as recently as six months ago. The principal events since then have been the company's successful renegotiation of its vital franchises in Hong Kong and Bahrain, on terms much better than expected. With the stability of the company's position in its main areas of operations secured, C&W was able to offer investors the prospect of profits and growth in the fast developing telecommunications sector. The increased attention

which the BT Act drew during the summer to the commercial opportunities in this sector and our subsequent agreement in principle to license C&W on behalf of a consortium to set up a new telecommunications network in the UK, (Mercury), will undoubtedly have contributed torwards the remarkable amount of interest shown in C&W shares. With public expectation of Mercury so high we must cut through remaining difficulties to ensure that it is a success.

4 Each one of the merchant banks, including Kleinwort Benson whom we eventualy chose as our advisers, advised us that no offer of shares in C&W was possible without the satisfactory renegotiation of the company's franchise in Hong Kong. The principal credit for this success must go to Eric Sharp, whose leadership during his first year as C&W Chairman has been outstanding, and to the Governor of Hong Kong and his Financial Secretary, whose co-operation and personal interest were invaluable in highly charged local circumstances. The other negotiators on both sides also deserve credit for their diligence. Not only was the outcome satisfactory to both sides but it was accomplished in a remarkably short period in order to enable us to meet the tight timetable for flotation which we had imposed. As it has turned out, the flotation of C&W shares was made on exactly the day booked with the Government broker last February.

5 It would be unfair not to draw your attention to the contribution of the other directors of the company and the staff who had to work extremely hard to prepare for flotation and did so willingly despite the obvious risks to the company of both the premature rengotiation in Hong Kong and the reaction of overseas Governments to our proposal for privatisation. Both these risks caused us and the company some considerable concern and they required very delicate handling, in which the FCO also played an important role. That they were satisfactorily overcome for our purposes within the required timescale adds to the achievement.

6 As in the case of British Aerospace we have left open the possibility of a further disposal but have undertaken in the Prospectus not to sell more shares for the foreseeable future. This was necessary in order to assure potential investors that the value of their investment would not be diluted soon after the offer and also to provide assurance for overseas Governments. The balanced form of words allows us some flexibility, although it will be expected to mean that a further sale is precluded for a period of at least eighteen months from the present offer for sale. The undertakings we have made to overseas Governments about the Government's majority shareholding should not commit us to any greater extent than we are committed to the investors in C&W. However, we shall obviously need to consider consulting overseas Governments once again if a further sale of C&W shares is contemplated in the future. I would hope that by that time the confidence of overseas Governments in C&W's private sector status will be secure and that any such consultation will be without risk to the company.

7 The success of the Cable and Wireless flotation should give us new encouragement for our remaining privatisation programme. There may, however, be those who will complain that the level of subscription for the shares indicates that the offer price was too low. Those who understand these matters will know that any such inference is superficial and I hope that colleagues will not allow themselves to be distracted from taking justifiable pleasure in the tangible fruits of success from the sale of these shares.

8 I am copying this minute to members of E(DL), the Secretary of State for Defence, the Lord Privy Seal, the Paymaster General and Sir Robert Armstrong.

PJ

P J

4 November 1981

Department of Industry
Ashdown House
123 Victoria Street

Kleinwort, Benson Limited 01-623 8000

FOR IMMEDIATE RELEASE

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

OFFER FOR SALE

OF

133,285,000 ORDINARY SHARES OF 50p EACH

Kleinwort, Benson Limited announces that approximately 337,000 applications have been received from the public for a total of approximately 750 million shares.

Preferential applications on pink application forms have been received from approximately 2,300 employees in respect of approximately 3,385,000 shares and will be allocated in full.

In view of the level of subscription and the large number of applications, it has not been practicable to allocate shares to all applicants. Accordingly, applications for up to 900 shares have been balloted under the supervision of a Notary Public.

Applications from the public will be allocated on the following basis:-

20 Fenchurch Street, London EC3P 3DB

Applications	Allocations
100 shares	Ballot for 100 shares
200 shares	Ballot for 200 shares.
300 shares to 900 shares inclusive.	Weighted ballot for 300 shares.
1,000 shares	300 shares.
1,500 shares to 3,000 shares inclusive.	25 per cent of the amount applied for.
3,500 shares to 5,500 shares inclusive.	20 per cent of the amount applied for, subject to a minimum of 775 shares.
6,000 shares to 5,000,000 shares inclusive.	Approximately 15 per cent of the amount applied for, subject to a minimum of 1,150 shares.
Over 5,000,000 shares	Approximately 13 per cent of the amount applied for, subject to a maximum of 2,250,000 shares.

Further details of the balloting arrangements are attached.

In accordance with the terms of the Offer, certain applications, which were suspected by Kleinwort, Benson Limited to be multiple applications, were rejected.

It is expected that letters of acceptance will be posted on Thursday, 5th November 1981, with dealings commencing on Friday, 6th November 1981.

2nd November 1981

APPENDIX

The basis of the ballot was as follows:-

100 shares	3 applications in every 10 applications received 100 shares
200 shares	3 applications in every 10 applications received 200 shares
300 shares	3 applications in every 10 applications received 300 shares
400 shares	4 applications in every 10 applications received 300 shares
500 shares	5 applications in every 10 applications received 300 shares
600 shares	6 applications in every 10 applications received 300 shares
700 shares	7 applications in every 10 applications received 300 shares
800 shares	8 applications in every 10 applications received 300 shares
900 shares	9 applications in every 10 applications received 300 shares

CONFIDENTIAL

Prime Minister

(4)

cc AD
AW
JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

MLS 3/11

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

3 November 1981

Dear Geoffrey

INTRODUCTION OF PRIVATE CAPITAL INTO BRITISH TRANSPORT DOCKS BOARD

In July last year E(DL)(80)4th meeting endorsed Norman Fowler's proposals for the introduction of private capital into the British Transport Docks Board (BTDB). He indicated that he hoped that shares could be offered for sale in late 1981, although the exact timing would depend upon trading conditions at the time.

The necessary enabling powers are now available in the Transport Act 1981 but BTDB's performance has deteriorated to such an extent over the past year that flotation in 1981 is not now possible. There has been a sharp deterioration in profits, due mainly to the general trade recession, and BTDB has also been badly affected by an industrial dispute at Southampton and a legal dispute with the British Steel Corporation over contractual payments. Kleinworts valuation of the market price of the business, which was £125m to £135m last year, has fallen to £20m - £30m. This compares with a book value of the assets of £170m. You will have seen my letter of 27 October to Patrick Jenkin attempting to resolve the BSC dispute.

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I am advised that an offer for sale on the basis of these figures would be completely impracticable. Potential purchasers would be deterred because they would think that the Government saw no real prospect of improvement and had decided to raise what they could as soon as possible. If the shares were marketable, the Government would be rightly criticised for selling public assets too cheaply and Opposition threats of renationalisation would inevitably follow.

The essential requirement for an early privatisation of BTDB is a sustained improvement in the level of trade, leading to a forecast of significant and continuing profitability for 1982 and 1983. I am therefore keeping the position closely under review. There are insufficient signs of improvement yet, but at least the 1981 results are no longer showing a net loss. The Southampton dispute has been partially resolved and the special national severance scheme for dockworkers, which has been running for September and October, should significantly reduce BTDB's surplus labour costs.

The next realistic opportunity for flotation is May 1982. I am therefore proposing a substantive review of the prospects in December and will report the findings to colleagues.

I am copying this to the Prime Minister, the other members of E(DL) and to Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

2F

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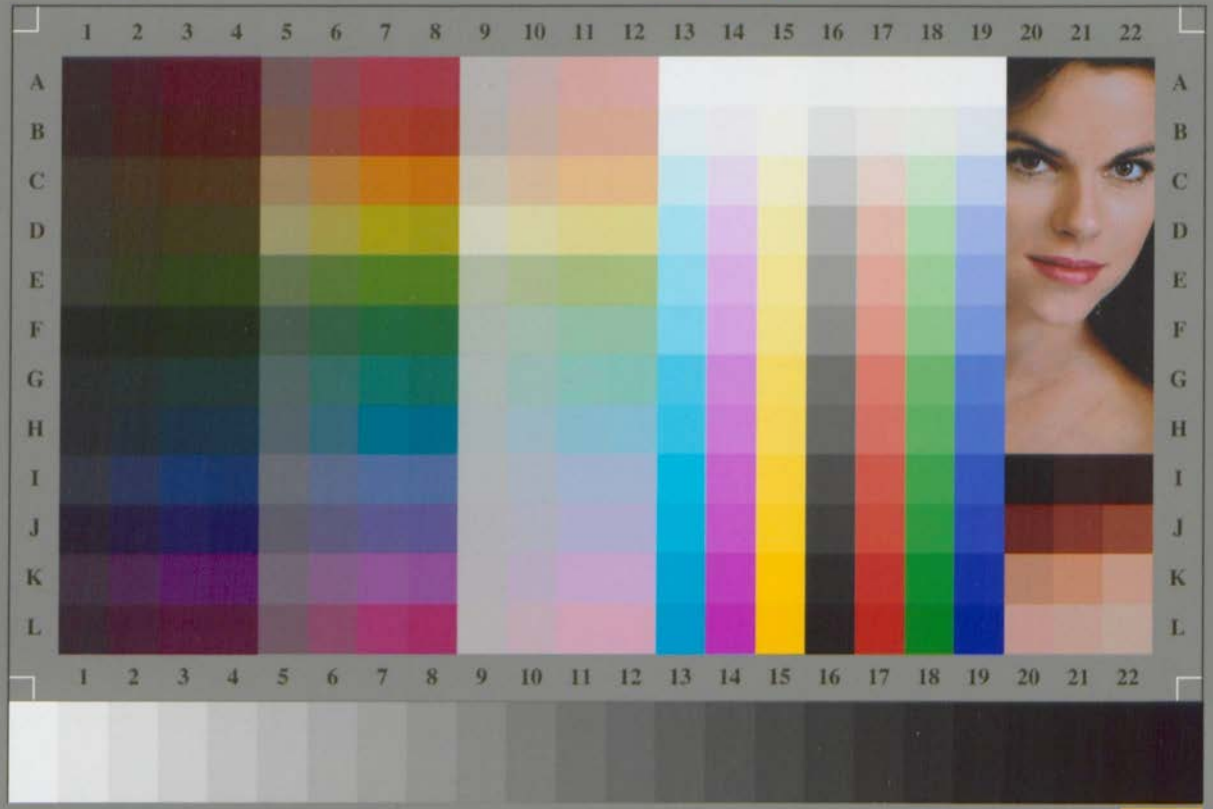

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