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PREM 19/1195

SECRET

CONFIDENTIAL FILING

Policy towards:-

Privatisation
Disposal of Public Sector Assets
Contracting out of Public Sector Functions

ECONOMIC POLICY

Pt 1: JUNE 1979

Pt 9: JANUARY 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~24.1.84~~		~~3.5.84~~					
~~26.1.84~~		~~10/5/84~~					
~~3.2.84~~		~~14.5.84~~					
~~24.2.84~~		~~15.5.84~~					
28.2.84		~~30/5/84~~					
~~2.3.84~~		~~1.6.84~~					
8/3/84		~~12.6.84~~					
~~16.3.84~~		~~15.6.84~~					
~~23.3.84~~		19.6.84					
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~~13.4.84~~							
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PART 9 ends:-

DB to Scottish Office 31.5.84

PART 10 begins:-

SS/Env to Lord President 1.6.84.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(84) 12th Meeting	16/05/1984
E(A)(84) 25 (Revise)	09/05/1984
E(A)(84) 26	09/05/1984
E(A)(84) 21	27/04/1984
E(DL)(84) 1	04/04/1984
E(A)(84) 7th Meeting, only item	28/02/1984
E(A)(84) 10	22/02/1984
E(A)(84) 2nd Meeting	25/01/1984
E(A)(84) 3	16/01/1984

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 J. Gray Date 11/9/2013

PREM Records Team

Published Papers

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

House of Commons HANSARD, 14 March 1984, column 420: Economic Situation

Signed J. Gray Date 11/9/2013

PREM Records Team

VC

bc. N. Ower

10 DOWNING STREET

From the Private Secretary

31 May 1984

The Bus Industry

The Prime Minister has considered your Secretary of State's minute of 29 May, and subject to the views of the Treasury Secretary and other colleagues, she agrees that there should be a single White Paper on bus de-regulation covering the whole of Great Britain.

I am sending a copy of this letter to Dinah Nichols (Department of Transport), to the Private Secretaries to other members of E(A) and to Richard Hatfield (Cabinet Office).

(David Barclay)

John Graham, Esq.,
Scottish Office.

DB

European Ferries Plc

Enterprise House, Avebury Avenue
Tonbridge, Kent TN9 1TH
Telephone: (0732) 366066
Telex: 957488 Ferrys G

31st May, 1984.

PRIVATE AND CONFIDENTIAL

The Rt. Hon. Norman Tebbit, M.P.,
Secretary of State for Trade and Industry,
1 Victoria Street,
London, S.W.1.

Dear Secretary of State,

Sealink U.K. Privatisation

We have received formal confirmation from the Office of Fair Trading that you have decided against releasing European Ferries PLC from the undertaking given by us in 1982 not to acquire Sealink U.K. Ltd. We are very disappointed that you have made this decision.

I have, however, been asked by my Board to raise with you the following three points as a matter of urgency:-

(i) Reasons for your decision

We are surprised in the particular circumstances of the privatisation of Sealink U.K. that we have received no indication whatever as to the reasons for our exclusion from the auction. I feel sure that you will understand that it is incumbent on me and my colleagues to explain to our employees and shareholders why European Ferries is to be denied the opportunity of bidding for Sealink U.K.

(ii) Revised Proposal

We feel that the Office of Fair Trading may not have fully understood the nature of our offer to consider any alternative solution to meet the problems regarded as inherent in an acquisition by European Ferries of Sealink U.K. in its entirety. We are keen to discuss as soon as possible and in a constructive and specific manner any matters of concern to the Office of Fair Trading and, in particular, the revised proposal set

European Ferries Plc

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Telex: 957488 Ferrys G

out below. Whilst we have, in the past, canvassed the possibility of European Ferries acquiring the ferries operations but not the ports of Sealink U.K., we have never put forward detailed proposals to acquire, as an alternative, the ports and dispose of the shipping operations. A proposal upon which I now invite your consideration is the acquisition by European Ferries of Sealink U.K.'s ferries and ports (so ensuring that European Ferries makes an unconditional bid, consistent with the terms on which the auction is being conducted, for the whole of Sealink U.K.), and, immediately after that acquisition to divest itself of the entire Sealink ferries operations. As a condition of our retaining the ports operation of Sealink U.K., we would be prepared to undertake to you as Secretary of State that:-

(a) all operators providing or intending to provide ferry services which compete directly or indirectly with those of European Ferries would be granted access without unjustified obstruction or delay to any port under the current ownership of Sealink U.K.;

(b) Sealink U.K. would be entitled, as far as the existing Sealink U.K. ports are concerned, for a period from the date of the undertaking, to select the slot cycle or cycles of its choice before European Ferries, or any other operator, is given an opportunity to select its cycle.

It will be appreciated that under this proposal Sealink U.K. would remain a major competitor of European Ferries in respect of ferries operations; the undertakings would ensure full and unfettered access to the ports by all our competitors. I am, of course, ready to consider any additional undertaking that might be thought necessary as a condition of obtaining your approval to this proposal.

(iii) <u>Sealink U.K.'s preferential borrowing arrangements</u>

Of particular concern to us at European Ferries and, I am sure, to other operators is the question of Sealink U.K.'s present borrowing arrangements with the British Railways Board. In our view, if these arrangements are continued in such a form as to favour a purchaser, or if

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the debts are to any extent written off, there will be a form of subsidy which thereby becomes permanent, so raising the question of a possible breach of Article 92, EEC Treaty. No indication has yet been given as to what is to happen with Sealink U.K.'s present borrowing arrangements in the course of the privatisation, and I hope that it will be clear to both us and the tax-payers that no breach of Article 92 has in fact occurred or is in contemplation.

If our revised proposal could enable European Ferries to be released from its undertaking I believe there would be clear benefits to be derived by the public from European Ferries being permitted to participate in the Sealink U.K. auction. The benefits resulting from our participation could include the prospects of a higher price being obtained for Sealink U.K. (and being seen to be obtained), and good prospects for the subsequent reduction (in the region of 15-20%) in fare tariffs. I would welcome your comments on the three issues raised above, and would be happy to attend a meeting with you at your convenience.

Yours sincerely,

Chairman.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (1)

Agree one White Paper covering Scotland as well, subject to Transport Secretary's views?

Yes mt

Dms 30/5

PRIME MINISTER

29 May 1984

THE BUS INDUSTRY

When we discussed this matter at E(A) on 16 May, colleagues agreed that I should prepare a separate White Paper on the application of our proposals to Scotland. On reflection, I think it would be better to have a single White Paper covering the whole of Great Britain, and containing a specific section on Scotland. Our main decision concerns deregulation, on which our policy is the same north and south of the border. A single White Paper would help to demonstrate the coherence of our decisions and the extent of our agreement on them; it would also minimise the chances of opponents exploiting divergences that would inevitably arise in the texts of two separate papers (though we cannot of course conceal the differing decisions north and south of the border on privatisation.)

I hope that (subject to Nicholas Ridley's views) you will feel able to agree to this. I am arranging to let Nicholas have a Scottish draft contribution.

I am copying this minute to Nicholas Ridley, to other members of E(A) and to Sir Robert Armstrong.

Approved by the Secretary of State
and signed in his absence

File

10 DOWNING STREET

From the Private Secretary

30 May 1984

THE BUS INDUSTRY IN SCOTLAND

We had a word on the telephone earlier today about your Secretary of State's minute to the Prime Minister about the bus industry.

I will let you have as soon as possible the Prime Minister's view on the proposal for a single White Paper. Meanwhile, I am returning the note about the bus industry in Scotland which was enclosed in error with your Secretary of State's minute.

David Barclay

CST

E. Gowans, Esq.,
Scottish Office.

File

089

cc: DTI
D/Trade.

10 DOWNING STREET

THE PRIME MINISTER

16 May 1984

Dear Mr. Siddle,

Thank you for your letter of 12 April about the undertaking given by European Ferries not to acquire Sealink.

You will by now be aware that the Secretary of State for Trade and Industry has decided not to release European Ferries from its undertaking. I understand that in reaching his decision he took into account the points you made to me, as well as all other relevant factors.

Yours sincerely

Margaret Thatcher

K. Siddle, Esq.

089

10 DOWNING STREET

From the Private Secretary

Prime Minister

I think you have already looked at Mr Ridley's paper and the Policy Unit note. You will also want to see the Cabinet Office brief, plus papers by the Secretaries of State for Scotland (C) and for the Environment (D), plus minutes from Lord Privy Seal (E), Secretary of State for Wales (F) and Minister of Agriculture (G).

AT

15/5

G

CC NO

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

From the Minister

CONFIDENTIAL

PRIME MINISTER

15 May 1984

THE BUS INDUSTRY

I have seen Nicholas Ridley's Memorandum on the bus industry (E(A)(84)21) and the subsequent Memorandums by Patrick Jenkin and George Younger commenting upon the proposals for the deregulation of local bus services and the resultant impact on rural areas.

Agriculture is of course the principal industry in many rural areas, and its ability to attract and retain the skilled labour required for its efficient operation is to a large extent dependent on the maintenance of a viable rural community. I therefore view with concern the possible effects of the proposals contained in E(A)(84)21, and I very much share the views of Patrick Jenkin as set out in E(A)(84)26. I am also very concerned at the political implications of deregulation in rural areas, and on this point I fully support the arguments George Younger puts forward in E(A)(84)25. There can be no doubt that the introduction of the supplementary levy on milk has been deeply unpopular among the farming community, and the continuing growth of surpluses in other sectors, combined with the current restraints in the community budget, mean that further cutbacks in agricultural production are likely. These developments have had, and are likely to continue to have, adverse effects on our traditional support in rural areas, and I do not feel that it would be wise to take a step that would strengthen the impression that we are insensitive to the problems of those who live and work in the country. I hope therefore it will indeed be possible for officials to examine the possibility of excluding rural areas from the scope of deregulation.

I am copying this minute to the members of E(A) Committee and to Sir Robert Armstrong.

MICHAEL JOPLING

F

cc NO

Prime Minister
I have not so far troubled you with the correspondence at X.
AT 15/5

MT

CONFIDENTIAL

THE PRIME MINISTER

THE BUS INDUSTRY

I have read the Memorandum by the Secretaries of State for Transport, Scotland and the Environment which are to be discussed at the meeting of E(A) on Wednesday. I think it might be useful to colleagues if I give some comments of my own beforehand.

Nicholas Ridley recognises that his proposals are radical and controversial and I sympathise with the view that major changes may be needed in this field. However I have noted what Patrick Jenkin and George Younger have said about the need for caution and I share their concern. If colleagues decide to endorse the proposals we shall need to ensure that the subsequent consultations are handled with care and sensitivity. It is important to recognise that the proposals (whatever their intrinsic merits) will be seen by both our supporters and critics not in isolation but in the wider context of what else is happening especially in rural areas. We can expect a further hostile reaction from local government and Welsh authorities will point out that their subsidy to the bus industry is currently close to planned provision. Certainly local authorities in Wales are not overspending in the same way as certain Metropolitan authorities. Moreover the counties are supporters and users of bus services eg for school transport purposes, and they are bound, for this reason as well, to be very concerned at changes which will affect those services. I am particularly anxious about the reaction of the rural areas who on the face of it stand to lose if the NBC network is truncated: our opponents will be quick to claim the proposals as proof of a supposed indifference on our part to the future of these areas. The reaction in Wales, as elsewhere to the recent milk settlement has been hostile, and it will not be happy if the bus industry proposals aggravate this.

X

Two points specific points concern me. First, we need to resolve the question of my proposed consultative paper on Local Choice in Public Transport. Colleagues will have seen the correspondence between Nicholas Ridley and myself. I have to emphasise again that the proposed paper is a Manifesto commitment and E(NI) agreed last September that the commitment should be met. I have tried to help Nicholas Ridley by deferring publication (in spite of considerable pressure within Wales) until we had his proposals for the Bus Industry. I do not think I should delay any longer. I see no contradiction between my proposed paper and his proposals. On the contrary they can be regarded as complementary. We are both talking about choice. My paper extends this element of choice to local rail services which in some cases might face direct competition from new services which could emerge as a result of Nicholas's proposals. I see no reason therefore why its publication should cause difficulty and I shall be asking colleagues to agree to my issuing it.

/Secondly ....

Secondly, Nicholas's paper proposes an innovation grant for services in rural areas and he suggests the Development Commission might administer this grant. The Commission's functions are undertaken in Wales by the Welsh Development Agency and the Development Board for Rural Wales and we shall need to have separate arrangements to cover the Principality: it may be that I should assume the necessary powers in Wales if the proposals are accepted.

/ I am copying this minute to Nicholas Ridley, George Younger, Patrick Jenkin, the other members of E(A); and to Sir Robrt Armstrong.

L.D.

15.v.84.

Approved by the Secretary of State
and signed in his absence

PUC

Press Notice

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 3919/3789 Ref: 275
Out of hours: 01-215 7877

May 15, 1984 10.30

PROPOSED BIDS FOR SEALINK UK LTD

A number of proposals to acquire Sealink have emerged in response to a request for offers on behalf of the British Railways Board (BRB).

The Secretary of State for Trade and Industry, Mr Norman Tebbit, has now considered advice from the Director-General of Fair Trading on whether these proposals should be referred to the Monopolies and Mergers Commission. In accordance with the Director-General's advice, he has decided not to refer proposals to acquire Sealink by the following potential bidders:

The "Sealink Consortium"
Trafalgar House PLC
Sea Containers Limited
Ellerman Lines PLC

The Director-General considered that the proposed acquisition of Sealink by P & O raised issues which merited investigation, and should not be allowed to proceed in the absence of a full investigation and report by the Monopolies and Mergers Commission. The Secretary of State agreed with this advice. BRB informed potential buyers of the terms for the sale to implement the policy agreed between Government and BRB for the disposal of Sealink, and in particular, made clear that all bids would have to be unconditional in all respects. Since the time required for an MMC investigation would mean that P & O would be unable to provide an unconditional bid on the timetable envisaged for completion of the sale, the Secretary of State understands that BRB will inform the company that BRB cannot consider a proposal by P & O to acquire Sealink. In that event, as P & O's proposed acquisition could not proceed, the Secretary of State would not envisage that it would be necessary for him to refer it to the Monopolies and Mergers Commission.

In accordance with the advice of the Director-General, European Ferries PLC is not to be released from its undertakings not to acquire Sealink.

P.01286

PRIME MINISTER

The Bus Industry
E(A)(84)21, 25 and 26)

BACKGROUND

In its Election Manifesto the Government said that it would aim to introduce substantial private capital into the National Bus Company and to relax bus licensing further to permit a wider variety of services. The Cabinet have agreed (CC(84)8th Conclusions) to include a Public Transport Bill in the 1984/85 Session.

FLAG A

2. The Secretary of State for Transport's proposals, summarised in the Annex to E(A)(84)21, are intended as the basis for a White Paper in the Summer. To increase competition and bring costs down, he proposes:

FLAG B

(i) the removal in all parts of Great Britain except London of the requirement for road service licences for local bus services; and

(ii) progressive adoption of a system making all subsidies to local bus services overt and dependent on competitive tendering.

To enhance the effect on competition and mitigate possible unwelcome effects, he proposes:

(iii) replacement of the duties of county councils to plan and coordinate public passenger transport with a power to ensure provision of necessary transport not supplied by the market;

(iv) accompanying the subsidy changes, breakdown of the Passenger Transport Executives (PTEs) and National Bus Company (NBC) into smaller, less market-dominant units prior to privatisation of the latter and at least some of the former; and a requirement on district councils to run their transport undertakings as separate companies;

(v) legislation to result in the dwindling away of quantity controls on taxis outside London; and to allow taxis to operate on a shared, fare-paying basis like buses;

(vi) retention and strengthening of quality controls;

(vii) 'pump-priming' grants for replacing lost services in rural areas and the easing of restrictions on running mini-buses for community services.

3. The proposals apply to Scotland and Wales, as well as to England. The Secretaries of State for Scotland and Wales have responsibility for local authority transport services in their areas and the Secretary of State for Scotland has responsibility for the Scottish Bus Group (SBG). Separate papers have been put in by the Secretary of State for Scotland (E(A)(84)25) and the Environment (E(A)(84)26). Their main worry is about the political implications in the rural areas.

FLAG C
FLAG D

MAIN ISSUES

4. These are, as the Secretary of State for Transport acknowledges, very radical proposals affecting a matter of interest to ordinary people throughout Great Britain, and they will be an important part of next Session's legislative programme. The political opportunities and risks will need to be weighed carefully. The main issues are:

i. is deregulation of local bus services outside London desirable, taking account of economic, social and political considerations?

ii. do the proposals fit satisfactorily with the Government's other proposals relating to local government?

iii. are the privatisation proposals adequate?

iv. should there be special arrangements for Scotland and Wales?

Economic considerations

5. The economic arguments in favour of the proposals are clear. By removing the possibility of cross-subsidisation they are designed to eliminate unprofitable bus services except where the taxpayer or ratepayer is prepared explicitly to subsidise them. Free competition will also drive out inefficient operators and this should reduce the costs of services, both those which can be run commercially and those which have to be subsidised. It should however be kept in mind that a key resource for the operator - road space - is being provided free. This resource is particularly valuable in the conurbations. There is the possibility of over-provision of transport and increased costs of congestion in the conurbations. Should officials be asked to do further work on licensing systems based not on administrative criteria but on payments (eg auctioning systems or systems relating licence changes to estimates of congestion costs)?

6. The proposals do not apply to London. Critics of the proposals will ask why, if they bring economic benefits, these benefits are to be denied to London. There may well be explanations which could be given, for example that road space

is so exceptionally valuable, and the cost of congestion so high, in central London that a greater degree of regulation is desirable there; or that the Government will achieve similar results in London by different means. It is however important to the political assessment of Mr Ridley's proposals to look now at this aspect of the argument. Unless the reasons for different treatment are convincing, the Sub-Committee may well wish to ask Mr Ridley to suggest how deregulation might be applied in London.

7. The outcome for public expenditure is difficult to judge. Mr Ridley acknowledges that in the short-term the removal of cross-subsidisation may increase expenditure on explicit subsidies to bus services. The introduction of new tendering procedures may also carry a manpower cost (estimated at 100-350 staff or £3-5 million). The costs of supporting rail services might increase by £10-20 million and the cost of social and health services in sparsely-populated areas by £10-30 million. The public expenditure benefits, which will arise from the effect of increased competition in reducing operating costs (and thus subsidies), will tend to emerge over a longer timescale and Mr Ridley accepts that it is not possible to quantify them.

Social considerations: urban and rural

8. In the conurbations the main effects of the proposals are likely to be: greater frequency and wider choice on the high-flow routes possibly offset by some delays resulting from congestion; disappearance of services on some low-flow routes, offset by the appearance of new, more flexible, if perhaps less predictable, services by taxi and mini-bus operators; and in general a less integrated and coordinated transport network. As the public become accustomed to the new arrangements and the benefits of low fares on high-flow routes become apparent, the social effect in the conurbations might be viewed as one of swings and roundabouts.

9. There is however more difficulty about the rural areas. Services are declining there already and it may be that deregulation would have little real effect in accelerating the decline. It would however be argued that any further decline was the result of the Government measures. The Secretary of State for the Environment therefore proposes that officials should be instructed to consider whether rural areas could be excluded from the scope of deregulation, or the option of a progressive staged approach. But these suggestions do not seem likely to achieve the objective of protecting rural communities. Deregulation in the urban areas will lead to greater competition and a reduction in the profits made on routes in those areas. It is those profits which are at present a main source of the cross-subsidy to routes in rural areas. Deregulation in urban areas alone would therefore reduce the resources which are available for cross-subsidy of rural areas, while withholding the benefits of competition from rural areas.

10. These arguments suggest that if Ministers wished to protect rural areas it might be better to confine deregulation precisely to those areas. However, Mr Ridley argues against this on the grounds that it is in the conurbations that the greatest gains from deregulation can be secured. (Certainly it is in the conurbations that the largest subsidies are paid from public funds, and where the greatest opportunities for reducing public expenditure exist). The Secretary of State for Scotland's conclusion, though with misgivings, is that,if there is deregulation, it ought to be complete (E(A)(84)25 paragraph 4).

Local government aspects

11. In the wake of the abolition of the Metropolitan County Councils and the introduction of rate-capping, the changes will be controversial with local government. Some authorities which favour privatisation and contracting-out could be expected to welcome the proposals. Others would oppose on political

principle wider competition in local bus services and the pressures it might impose on fares and services. There might be more general criticism if there were no undertaking by the Government to match any initial increase in demand for subsidy with additional resources. The complexity and cost of the tender-linked subsidy system, and even its practicality, might be criticised by some authorities.

12. The proposed restriction of the local authority role in public transport is the focus of a disagreement between the Secretaries of State for Transport and for Wales which Mr Edwards is likely to raise. Mr Ridley has argued that it would be wrong in present circumstances to give local authorities more transport responsibilities or to transfer to them subsidies presently distributed through the central Public Service Obligation grant for railways. Mr Edwards wishes to raise in his proposed consultation paper on 'Local Choice in Public Transport' the possibility of transferring control of rail services to the County Councils, along with some resources from the PSO grant. You will not wish the Sub-Committee to digress into the substance of this proposal at the present meeting, but it will be necessary to ensure that the Welsh consultation paper reflects the decisions of the Sub-Committee on buses.

13. The Secretary of State for the Environment raises (E(A)(84)26 paragraphs 9-11) the question of how Mr Ridley's proposal for the break-up of PTE operators into smaller units squares with the procedure outlined in paragraph 2.24 of 'Stremlining the Cities':

> "The Government..... will be prepared to consider on their merits any proposals by individual districts to provide separate services and to enter into contractual arrangements with other operators ..... "

14. Mr Ridley is likely to argue that secession by individual districts would not be prevented by his proposals provided that the municipal operators were run as separate companies subject to the proposed competitive subsidy regime. You will wish to establish whether this is acceptable to Mr Jenkin. Any exemption from the company structure requirement for the metropolitan districts would be an important departure from Mr Ridley's proposals.

Privatisation

15. Mr Ridley proposes that PTE and municipal operators of bus services should be turned into companies and that this can be achieved by 1987/88. He also proposes that the National Bus Company should be broken down into a number of units and privatised over a period of time.

16. The Sub-Committee will wish to consider whether this is the right approach, particularly as regards the NBC. Privatisation of the NBC as a whole would secure a higher price and an earlier and more certain return to the Exchequer; but it would run contrary to the thrust of the deregulation strategy, by inhibiting the growth of competitive bus services. On the other hand, waiting for such services to develop on a sound basis before individual parts of the NBC can be sold may mean little if any Exchequer proceeds from the privatisation of NBC within this Parliament. Are the Sub-Committee content for the interests of competition to be given priority?

17. You will probably wish to invite the Ministerial Sub-Committee on Disposal of Public Sector Assets (E(DL)) to consider the details of privatisation.

Scotland and Wales

18. The Secretary of State for Wales will wish to indicate whether he dissents from the proposal that the changes in the Annex to

E(A)(84)21 should apply in Wales. In E(A)(84)25 the Secretary of State for Scotland says that:

a. he is content to adopt in Scotland the subsidy system proposed, provided he has flexibility on the timing of introduction;

b. action in Scotland on the structure of the industry should be confined to a reserve power for the break-up of the PTE and imposition of a company structure for the three municipal operators; and

c. he agrees broadly with proposals for liberalising taxi operations.

The Sub-Committee, and the Secretary of State for Transport in particular, will wish to say whether they are content with this; and with Mr Younger's proposal that the Scottish Bus Group should not for the time being be privatised.

Taxis

19. The Home Secretary will not attend but has said that he is content with the proposals in E(A)(84)21 as they affect taxis.

HANDLING

20. You will wish to invite the Secretaries of State for Transport, the Environment and Scotland to present their papers and the Secretary of State for Wales to give his views. The Chief Secretary, Treasury will wish to comment on the economic and public expenditure implications. Most members of the Sub-Committee are likely to have views on the political reaction to the proposals in Parliament and elsewhere.

CONCLUSIONS

21. You will wish the Sub-Committee to reach conclusions on the proposals summarised in the Annex to E(A)(84)21, and in particular on the following:

i. Should the provision of local bus services be completely deregulated outside London?

ii. Should any further work be done on ways of protecting rural areas?

iii. Should the powers of local authorities be restricted:

a. by replacing the duty of county councils to plan and coordinate public transport by a power to secure transport beyond what the market would provide;

b. by making their powers to pay subsidies to bus undertakings dependent on competitive tendering?

iv. Should the Board of the National Bus Company be told to break the company up into smaller units and to transfer them to the private sector?

v. To what extent should the changes approved by the Sub-Committee extend to Scotland and Wales?

PG

P L GREGSON

14 May 1984

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AT 16/5

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

15 May 1984

Dear Nigel

ADMINISTRATION OF THE LIMIT ON AIR TRANSPORT MOVEMENTS AT HEATHROW

I am responding in this letter to the points made in the E(DL) discussion (E(DL)(84)1st) on my memorandum seeking agreement to legislative powers to implement the environmental limit on air transport movements at Heathrow, which we are committed to introducing when the fourth terminal opens at the airport towards the end of next year.

I attach a consultation paper, setting out preliminary views on how that limit might be implemented. I would like to issue it shortly. In doing so, I would stress that this is a consultation document and that Ministers have not reached decisions on any of the options set out in the paper.

In implementing the Government's commitment I will be seeking, at the outset and subsequently, to balance the interests of air travellers and those who live near Heathrow who suffer noise disturbance. Since the time of the Inquiry into the fourth terminal the noise climate around Heathrow has, as was then expected, improved considerably with the introduction of quieter aircraft. At the Inquiry the Inspector said that the limit should be subject to review, but as average passenger loads increased and as older noisier aircraft were phased out, the limit should be lowered so that further reductions in total noise should be enjoyed by those living near the airport. The then Secretaries of State for Trade and for the Environment, in their decision letter, drew attention to the need to make effective use of the airport, and opened up the possibility of subsequently relaxing the limit as noisier aircraft were replaced by quieter ones. As I explained to E(DL), I will be seeking to devise a system which would permit some flexibility in later decisions about the limit by relating it to the overall level of noise actually generated.

It might be possible, as quieter aircraft continue to be introduced, to allow the number of movements to rise somewhat while not increasing the noise disturbance to those living near the airport. However, at this stage, I should not discuss this, let alone reach any decisions until the report on the Stansted/Heathrow Terminal 5 Inquiry has been decided.

I was asked by E(DL) to consider further whether it was right that the weight of any measures to limit demand should fall more heavily on domestic than on international services. The starting point is that the recent growth in domestic services has added considerably to the number of movements at Heathrow, but has decreased average passenger loads, thus making it more difficult to make optimum use of the airport.

My objective for domestic services is to encourage end to end passengers, who are not interlining at Heathrow to or from foreign destinations, increasingly to use the other London airports. These passengers will be far less inconvenienced if they have to fly via Gatwick than will UK businessmen and others who necessarily have to interline at Heathrow for foreign destinations. (The improved rail service which has just been introduced has cut the Victoria - Gatwick journey to half an hour, with trains every 15 minutes; and from Summer 1985, when the M25 connects Gatwick fully to Heathrow by motorway, Gatwick's links with the West and North West of London will be very good.) My further aim will be to retain the competition which has recently been introduced in domestic services to Heathrow, even if there must be a limitation on the number of services.

I recognise that these proposals are a little unpalatable and, in the light of the E(DL) discussion, have made them rather more tentative in the consultation paper. And I have in particular emphasised that the suggestion that domestic end to end passengers should pay a special supplementary charge (a 'poll charge') for using Heathrow has been put forward to stimulate discussion as one possible contribution to dealing with an unavoidable problem.

I intend that the powers in the Bill will be flexible enough to permit changes in the number of movements, when we come to consider a future review; and they will not prejudice future decisions on how any environmental constraint should be implemented.

I should be grateful for the Committee's agreement, by Friday 18 May, to my issuing the attached consultation paper setting out preliminary views on how the limit on air transport movements should be implemented.

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

Yours ever

NICHOLAS RIDLEY Nicholas

2F

Draft Ministerial Introduction to ATM Consultation Document

The Government is committed to introducing a limit on the number of air transport movements at Heathrow when the fourth terminal opens at the airport towards the end of next year. The attached consultation paper prepared by my Department sets out some preliminary views on how that limit should be implemented. In advance of consultation, Ministers have reached no firm conclusions on the options that have been suggested. Our aim in implementing the commitment to limit disturbance from aircraft noise will be to achieve a sensible balance between all the interests involved as well as to make effective use of Heathrow which is an important national asset.

2 There will be more aircraft wanting to use Heathrow than can be allowed to do so under the limit. The airlines may themselves be able to help in reducing the scale of the problem. For example, they may be able to introduce larger aircraft sooner, or vary their operations to improve load factors, or transfer some of their services to other London airports. Such self-help might make the problem more manageable than is suggested in the paper. I am concerned that regulatory intervention to achieve the environmental constraint should be kept to a minimum, so as to interfere as little as possible with commercial airline operations. This is one of the reasons why the consultation paper has been issued some time before the restraint is due to come into force.

3 But something more than self help does seem likely to be

necessary to keep demand within the environmental constraint. This is certainly the view suggested in the paper. There is a need therefore to consider what measures might be adopted. The pros and cons of various restrictions on international and domestic services are discussed.

4 The paper suggests that the greater part of any restrictions should fall on domestic services, with the aim of shifting from Heathrow those passengers whose journey is simply to and from London. The argument is that these passengers would be less inconvenienced than others if they travelled via another London airport. Not everyone yet realises that rail access to Gatwick has been considerably improved, with a fast service every 15 minutes taking half an hour, and that the M.25 links from Gatwick towards the West and North West will be completed not long after the constraint is introduced.

5 The pricing mechanism might also be used to create some incentive for domestic "end to end" passengers to use the other London airports. Two tentative possibilities are aired in the paper. One is that slots for domestic flights should be auctioned to the highest airline bidder. Another is that passengers to and from Heathrow who are not interlining with other flights should pay a special supplementary charge, known as a 'poll charge'. Such travellers would have the alternative of making their journey via the other London airports without such a charge. Either way would mean increased charges, and I recognise that that would not be popular. I would welcome views on whether it would be preferable to regulatory intervention which might reduce passenger choice.

6 I would stress that the Government have reached no conclusions on any of the options in the paper. The Government will consider fully all the views expressed before taking any decisions.

HEATHROW AIR TRANSPORT MOVEMENT LIMIT

Noise around Heathrow, and the purpose of the movement limit

1. Heathrow is surrounded by densely populated areas which are subjected to the noise created by aircraft using the airport. While there has been some improvement in the noise climate as quieter aircraft have replaced older noisier types, there are still about a million people who experience some disturbance from aircraft noise.

2. The effects of noise on the surrounding communities were considered in great detail at the Public Inquiry into the planning application to build a fourth terminal at the airport. In his report the planning Inspector recognised that additional airport passenger capacity was necessary but considered that everything should be done to minimise the effect that this would have on the expected improvement in the noise climate. To that end he recommended that the number of air transport movements (ATMs)* at Heathrow should be restricted. The Government accepted that there should be a limit and in its decision approving the development of Terminal 4 prescribed a limit of 275,000 ATMs, close to what was then estimated to be the capacity of the runways. The announcement of the limit, which was to come into effect from the opening of Terminal 4, mentioned that it would be reviewed in the light of progress on the prohibition of noisier aircraft and the introduction of quieter aircraft. This paper considers how that commitment is to be implemented; any measures which are brought into effect at the outset will not preclude any subsequent changes.

Traffic levels since the Terminal 4 Inquiry

3. At the time the Inspector made his recommendations in 1979, ATMs at Heathrow were just below 270,000. After rising to over 280,000 in 1979/80, the number fell sharply in the following two years as a result of the recession. In the last two years, however, activity has picked up again and the introduction of new services on domestic routes has contributed significantly to the growth in ATMs:-

	AIR TRANSPORT MOVEMENTS AT HEATHROW		
	Total	Domestic	International
1978/79	269,872	59,920	209,952
1979/80	280,690	64,855	215,835
1980/81	266,822	62,584	204,238
1981/82	245,789	57,766	188,023
1982/83	252,836	64,898	187,938
1983/84	263,313	74,198	189,115
Planned November 1983/ October 1984	277,500	76,800	200,700

Operations planned by the airlines in the current year are thus likely to exceed the level of the limit and demand for "slots", ie times for take-off or landing, is expected to continue to increase until the early 1990s when on present assumptions about patterns of traffic and aircraft size it could exceed the limit by some 35,000 movements. There are, therefore, two problems to be solved: first, how should the demand for ATMs be reduced to within the environmental constraint; second, once that has been achieved, what measures should be employed to ensure

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* Scheduled and charter service movements (including helicopters) transporting passengers or cargo, but not positioning flights, air taxi and general aviation movements.

that the constraint is not subsequently exceeded. The Department favours a flexible approach which encourages maximum self-help by airlines and keeps Government intervention to the minimum necessary to ensure that demand remains within the constraint.

Existing machinery for dealing with congestion at peak times

4. At Heathrow, as at other major airports, a Scheduling Committee, composed of the airlines using the airport, allocates slots at particular times of the day. The Heathrow Scheduling Committee relies on the voluntary cooperation of the airlines to achieve a match between the slots sought by airlines and the handling capacity of the runways and terminals. The Scheduling Committee allocates slots twice a year covering the periods from April to October and November to March. Scheduling slots at Heathrow has to be coordinated with the scheduling of slots at other airports, and this is achieved at planning conferences organised under the auspices of the International Air Transport Association (IATA) in which all airlines, whether members of that Association or not, may participate.

5. The Scheduling Committee has generally worked well on the basis of give and take between its member airlines, and the Government is keen that it should continue to play a central role in allocating slots within the environmental constraint. However, the Scheduling Committee has until now had to cope only with the problem of excess demand at peak periods. If an airline could not operate at the time it preferred, there has always been the possibility of a slot at some other time of the day. The Scheduling Committee has not had to deal with a situation where it had to refuse an airline a slot altogether. There must be some doubt about whether the Scheduling Committee cou perate successfully and avoid deadlocks once the demand for slots exceeds the number available. It seems likely therefore that measures will have to be taken to limit demand for access to Heathrow, and to reinforce the Scheduling Committee in its task by defining principles for the allocation of slots. While in the apportionment of a benefit which is limited in total size, it is not possible to provide everyone with exactly what they want, airlines, including those newly licensed, must be satisfied that they are being fairly treated in comparison with their competitors. Some moderation of the strict application of the IATA "grandfather rights" principle, whereby priority is given to an airline previously occupying a particular time slot, is likely to be needed to achieve this.

6. It is for consideration over what period of the year the number of ATMs should be counted. It seems sensible that this should be related to the IATA scheduling seasons which begin and end with British Summer Time. The Department's favoured option is to start the first full year at the appropriate date in March 1986, at the start of the summer season. It believes airlines would find this helpful since any reduction in operations found necessary would then occur in the winter season, when it may be somewhat easier to arrange. But the Department would welcome views on this. An interim arrangement could be established for the period between the opening of the terminal (possibly in October 1985) and the start of the summer season.

Legal powers

7. While the Government has, in Section 78(3) of the Civil Aviation Act 1982, powers which would enable it to impose an overall limit, these would not be adequate for implementing it in practice. The Government therefore proposes to seek additional statutory powers to enable it to give effect to any or all of the measures discussed in this paper. An outline of the powers that it proposes to seek is at Annex A. The powers would be available for use at other airports if they should be needed to deal with problems of restricted capacity, though there is no present likelihood of this nor intention of using them elsewhere than at Heathrow.

The proposed approach

8. In considering the approach that should be adopted the Department has had regard to the following objectives, in no particular order:-

a. the facilities of Heathrow (runways, terminals, parking areas and other infrastructure) should be used as effectively as possible;

b. as much freedom as possible should be left to the preferences of passengers and the commercial judgement of the airlines, and regulatory intervention should be kept to a minimum;

c. compatibiity with the CAA's statutory objectives;

d. consistency with the UK's international obligations;

e. compatibility with the Go ernment's desire to encourage competition in the provision of domestic services; and

f. Heathrow's importance as an international "hub" airport should be maintained by minimising the restriction on interlining opportunities; and insofar as intervention is required, the range of services available at Gatwick should be increased, so that it can develop similarly as an international hub.

In practice some compromise has to be sought between these objectives.

Existing limitations on services

9. Since 1978 restrictions have been placed on the use of Heathrow designed to reduce congestion at the airport and to encourage certain categories of traffic to use other London area airports. New operators are banned from starting scheduled international services from the airport and whole aircraft passenger charters are not allowed, with the exception of Concorde, VIP flights and more recently ad hoc charters. (The last relaxation will lapse when the fourth terminal is opened.) It is clear that these restrictions will need to be maintained and, given the trend in demand, further measures will also be needed to observe the environmental constraint.

Approaches to the limitation of future demand for slots at Heathrow

10. The Department has considered a number of ways in which demand might be limited:-

i. pricing mechanisms;

ii. the exclusion of certain categories of traffic or services;

iii. the sub-division of the limit into quotas for international and domestic services.

Pricing mechanisms: general

11. In many situations the best way of allocating a scarce resource is by a mechanism which makes it available to those for whom it has the highest value, ie by some form of pricing. The BAA have already made some changes in their charging structure, to reflect the costs of providing facilities, which increase Heathrow charges for domestic services, particularly those using smaller aircraft. That means in relative terms the price of using Heathrow will increase to these operators, and that may have some effect in moderating demand in this sector, which has been among the fastest growing in terms of air transport movements.

However, airport user charges form a relatively small part of the total costs of an airline, and past experience has shown that there is very little price elasticity of demand. In the Department's judgement the level of charges would have to be more than doubled to make any significant impact on overall demand, even assuming that the present restrictions on the use of Heathrow were maintained. Such general increases could not be squared with our international obligations. The Department does not consider therefore that pricing is something that can be used in isolation to deal with the problem of excess demand, though it may nonetheless have a role in relation to domestic services (see below).

Exclusion

12. The exclusion of specific categories of traffic, such as all-cargo services or small aircraft below a certain seating capacity, has been considered. All-cargo services have declined in recent years as more and more cargo is carried in the holds of passenger aircraft. A ban on all-cargo services would seriously affect those airlines whose services were integrated with their passenger operations. It would also waste excellent cargo facilities which have been provided at the airport at considerable cost. The exclusion of small aircraft would help to maximise the use of the airport's facilities but would not help with the balanced build-up of traffic at Gatwick.

13. An alternative to excluding categories of traffic is the exclusion of services to particular destinations. The most suitable routes for transfer would be those which would minimise the loss to other Western European airports of interlining passengers. It seems sensible to consider transferring those services with a low interlining content and which therefore carry a high proportion of passengers who, unless their destination or point of departure is close to Heathrow, generally have no strong reason for using it rather than another London airport. Where routes were served both by British Airways and by a foreign carrier both services would be transferred so that one did not gain a commercial advantage from the move at the expense of the other. Transfer of the main geographical groups of international services with an average of less than 10 interlining passengers per flight would save about 4,000 ATMs per annum. A further 8,000 ATMs might be saved by the transfer of services to particular holiday destinations which also tend to have a low interlining content. Domestic services with relatively few interliners account for some 10,000 ATMs.

14. Another option would be to impose a limit on the frequency of services on individual routes. On the most popular routes, which have a large number of daily flights (eg those with more than 4 services a day per carrier in each direction), expansion of demand can be met by increasing aircraft size or by mounting additional flights. Airlines would be permitted to do the former but if they wished to add extra flights to their schedule, they would have to operate them from another airport. This would inhibit growth in movements on these routes but not actually reduce them. As many as 5,000 movements could be saved, however, in the longer term. In order to reduce the demand to within the environmental constraint a cut-back in the present level of services would be needed. There would be considerable savings immediately from a cut-back in such services. The Department has estimated that if frequencies were limited to 5 services a day per carrier, international ATMs would be reduced by 5,000 a year and domestic ATMs by 10-15,000. In this way Heathrow's interlining opportunities would be preserved while other London airports would stand to gain services to some of the most important domestic and European destinations.

15. The foregoing measures could apply to both international and domestic services. To what extent should they be concentrated on one or the other? On international routes the basic pattern of services is established and has already been constrained: it has for some time been Government policy that no new international carriers should be allowed to operate services into Heathrow. A main

aim of further measures on international services should perhaps be to encourage airlines, voluntarily or through 'capping' measures, to increase aircraft size or to expand their services at Gatwick.

16. On domestic routes the pattern of services is still evolving. The encouragement of greater competition on domestic services has brought benefits to the passenger in quality and choice of service. But it has also added to frequencies at Heathrow and decreased average passenger loads. It has been suggested that domestic services should therefore be limited proportionately more than international services. But any such measures should, as far as possible, retain the benefits of competition at Heathrow.

17. About 70 per cent of domestic passengers using Heathrow are simply travelling to and from London and the South East. If these passengers did not use Heathrow (but instead flew via Gatwick), they would be relatively less inconvenienced than those who use Heathrow because they need to interline there for foreign destinations. It could be argued therefore that the broad aim of measures on domestic services should be to encourage domestic end-to-end passengers to use the other London airports. Road and rail improvements are in any case making these airports more accessible. The rail link to Gatwick has been considerably improved. The journey time is about 30 minutes from Victoria with a service every 15 minutes. The M25, south western and western sections, which will be completed by the summer of 1985 will make Gatwick more accessible to many parts of London.

Domestic Pricing

18. The pricing mechanism might be used to deter excess demand on domestic services. Prices necessary to ration demand may be somewhat lower than for international services - since many distances, and thus fares, are lower. But they might still be more than double the present level of charges for domestic services. A major limitation is that domestic airlines with international services could choose not to pass higher charges fully through to domestic fares.

19. To avoid this last difficulty, one possibility, which is put forward principally to stimulate discussion, would be to require terminating passengers on domestic services to pay a special supplementary charge for using Heathrow. Interlining passengers would not be liable to such a charge. A note on the implications of such a 'poll charge' is attached at Annex B. A poll charge would have to be set at a fairly high level if it was to discourage travellers from using Heathrow. The charge could be collected either at the time of booking the ticket or, as if it were an airport tax, during the check-in process. The revenue would accrue to the airport authority, to be used for the benefit of other airport users, possibly by reducing charges on domestic services at the other London airports to provide an additional incentive to use them.

20. The measures described in the above paragraphs would not guarantee an exact matching of supply and demand. The Department would prefer to leave to the airlines through the Scheduling Committee any 'fine-tuning' that might be needed to reduce any small excesses in demand - at least until further measures became unavoidable.

21. To avoid the need for a fundamental review whenever this occurred, it has been suggested that there might be a separate sub-quota on domestic services. This suggestion reflects the belief that, following whatever initial measures are adopted, subsequent action to reduce demand should be directed principally towards domestic services, so as to minimise the effect on Heathrow's status as the pre-eminent international airport in the world. The level of the sub-quota would mirror the desired balance between domestic and international ATMs. The CAA would be responsible for varying the licences of domestic operators to ensure that

demand remained within the sub-quota. The quota could be set at a figure that allowed for some growth in international movements. Until that growth had occurred the CAA should be able to grant limited period licences for domestic services above the level of the sub-quota. If growth of demand for slots for international services, despite other measures (like frequency restrictions) to limit it, exercised excessive pressure on the domestic quota there would clearly need to be a fresh review.

22. The Department would welcome views on the merits of having a formalised sub-quota and if so whether, and to what extent, it should reflect a bias in policy in favour of international ATMs.

Domestic slot auctioning

23. Slots within a domestic quota could be apportioned not by some method of allocation but by auctioning them to the highest bidder. It would be possible under this approach to auction either particular time slots or simply the entitlement to a slot, the timing of which could then be sorted out through the existing scheduling arrangements. Although this would represent an efficient mechanism in economic terms, in practice it would tend to reduce the competition which the Government has been trying to foster, since airlines with ample financial resources would be able to secure the prime slots to the detriment of the small airlines. Nevertheless, slot auctioning must remain as a possibility for regulating demand. It is envisaged that under this option airlines would subsequently trade slots (or Heathrow frequencies) among themselves.

Preliminary views of the Department

24. It will be apparent from the discussion in the paper that the Department considers that a combination of measures will probably be needed to limit access to Heathrow. In principle it:-

a. favours the maximum use of market mechanisms rather than regulatory intervention, but recognises that some regulatory intervention will be necessary;

b. considers that as regards international services, and perhaps also for domestic services, "capping" or a cutback of frequencies is to be preferred to involuntary transfer of services;

c. considers that domestic services may need to be limited proportionately more than international services, and sees arguments for encouraging domestic terminating passengers to use other London airports.

Comments

25. The Department would welcome comments:-

a. generally on the issues raised by this consultation paper;

b. on the measures that should be taken when the limit comes into force to eliminate the excess demand then expected (which could be as much as 10,000 ATMs);

c. on the measures that should be taken thereafter to limit demand;

d. the period over which movements should be counted.

Procedure

26. Comments are sought by [29 June]. These should be addressed to Mr N McInnes, Civil Aviation Policy Directorate, Department of Transport, Room S7/10, 2 Marsham Street, London SW1P 3EB. Comments will be made available to the CAA unless respondents specifically request otherwise.

ANNEX A: ADDITIONAL LEGAL POWERS

1. The Secretary of State should have power, at his discretion, to specify limits on the use of an airport by:-

i. individual airlines;

ii. categories of, or particular, services;

iii. categories of aircraft;

iv. categories of traffic;

in order to ensure efficient use of capacity at that airport. He will therefore be able, for example, to impose a limit on the total number of domestic/international route movements or to cap services to any particular destination.

2. BAA will be placed under a statutory duty not to allow the limits set by the Secretary of State to be exceeded. The Scheduling Committee will continue to allocate slots within the limits, but it may be necessary to provde the BAA with additional powers to enable it, if necessary, to enforce decisions on allocations.

3. The Secretary of State should be entitled to direct the CAA as to its air transport licensing functions with a view to ensuring the maintenance of the limits. The CAA should have sufficient power to enable it to exercise its licensing functions, without a direction, in a manner calculated to facilitate the observance of the limits.

4. Additional powers may be necessary in order to enable BAA to ration demand for the use of an airport through pricing. The BAA should be able to exact any non-cost related charge where justified in order to facilitate the discharge of its duty to implement the limits. The Secretary of State should have power to require the BAA to prepare and implement a scheme for levying charges, or selling the right to use the airport, applicable in relation to any specified category of services, which in the Secretary of State's opinion reflects the scarcity value of the use of an airport. In relation to foreign airlines on international routes HMG is circumscribed by its international obligations and the Secretary of State may need to have a power of direction to ensure that the BAA takes into account such international considerations.

5. Legislative provision would be required to establish a poll charge.

6. There are still a number of difficult legal issues which need to be resolved in relation to the concept of "slot auctions", one of which is how to create a sufficient property right in the right of access to enable subsequent trading of that right between airlines without derogating from the BAA's rights.

ANNEX B: USE OF A "POLL CHARGE" FOR DOMESTIC PASSENGERS

1. A poll charge could be levied directly on domestic terminating passengers to deter them from using Heathrow and to encourage them instead to use Gatwick and Stansted. The application of the charge would be limited to passengers arriving at or departing from Heathrow on domestic services who were not interlining with an international flight. Interlining passengers in this context could be defined as those domestic passengers who have identifiably arrived by, or are travelling onward by, an international service within a defined period from their domestic arrival or departure at Heathrow.

Method of levying the charge

2. A poll charge could be collected in one of two ways: it could be collected by the airline/travel agent at the time a ticket is sold as a surcharge on the price of a ticket or it could be collected, as if it were an airport tax, on departure during the check-in process either at the check-in desk itself by the airline or separately by the airport authority.

3. An important consideration is that the charge should be perceptible to the passenger: he should recognise that he is paying an extra amount for using a Heathrow service. The effectiveness of the charge would clearly be diluted if airlines were able to average it out among all their passengers (as peak landing charges are currently spread out).

4. The problem with collecting the charge at the time the ticket is sold is that the charge is likely to become absorbed within the overall ticket price and not be separately identifiable. The alternative of levying the charge during the check-in process would have the advantage of making it readily apparent to the traveller but it would increase the time it took to process passengers, the number of staff needed to cope with them and the congestion at Heathrow and other airports.

Means of distinguishing interlining passengers

5. The only practical way of distinguising between interlining and end-to-end passengers would be on the basis of whether or not they had a through ticket for an inbound or outbound flight to another destination. The "Shuttle" passenger would have to show that he had a ticket for a flight to or from another destination within say 12 hours of the "Shuttle" flight. Those passengers who had proof that they were interlining through Heathrow would be given a ticket exempting them from the charge. It would not be practicable to charge all passengers through their ticket and then refund those who actually interlined, even though the number of transactions would be much lower.

Policing

6. The operation of the system and the categorisation of chargeable and exempt passengers would rely to a large extent on the domestic airlines. This would be backed up by periodic spot checks. Consideration would have to be given to what sanctions might be needed.

Size of Poll charge

7. A poll charge would have to be set at a high level if it was to discourage travellers from using Heathrow. It seems likely that something in the region of £15 at least would be required. This represents a surcharge of about a third on an average domestic single fare. The poll charge needs to be high in relation to the fares on the longer domestic routes which carry the highest proportion of passengers who are not interlining. On the shorter domestic routes, many more travellers will be exempt from the charge.

Destination of proceeds

8. The revenue raised by the poll charge should preferably go to the BAA to enable the Authority to apply the proceeds to the benefit of other airport users. It is for consideration whether the proceeds should be used primarily to reduce charges for domestic services at the other London airports to provide a parallel incentive to use them.

PRIME MINISTER

THE BUS INDUSTRY

1. I am afraid that I shall be unable to attend the meeting of E(A) on 16 May as I have to give evidence to the Select Committee on European Legislation on that day. However, I thought it might be useful if I were to give you my views about the three papers which will be discussed by the Committee.

2. As Nicholas Ridley so rightly recognises, what he is proposing is a very radical change in the system of public transport. I very much hope that the results he expects will be achieved, but I know that they must be some time in coming and the intervening period will be very difficult. My main doubt is basically that suggested by Patrick Jenkin; whether we should not in some way attempt to protect the rural areas. On the whole, however, I feel that this will not be achieved by exempting them from deregulation. What is required in rural areas is a much more flexible system of public transport, which will enable the relatively small numbers of people involved to be carried to their destination with the minimum of overheads. In my view, therefore, any question of helping the rural areas should concentrate much more on stimulating the supply of this sort of small scale transport.

3. I should in addition like to make two small technical points. The timetable for this Bill assumed that it will be introduced in October/November of next year and that as a result instructions will be sent to Parliamentary Counsel by the end of June. This is looking somewhat unlikely in the light of the slippage of the policy timetable. I hope therefore that every attempt will be made to publish the White Paper as soon as possible and for the necessary decisions

to enable Parliamentary Counsel to be instructed to be taken as soon as possible thereafter. One other small point on timing; paragraph 1 of the Annex to Nicholas Ridley's paper refers to the deregulation provisions taking effect in July 1985. I suspect that is somewhat optimistic, in view of what we shall be faced with next Session. I think therefore that at this stage it would make more sense for the Department of Transport to base their plans on the assumption that Royal Assent might be delayed until as late as October 1985.

4. I am copying this minute to the Lord President, other members of E(A), the Chief Whip and Sir Robert Armstrong.

WJB

J.B.
14 May 1984

CONFIDENTIAL

File

(1)

PRIME MINISTER

cc: Mr. Owen

SEA LINK

You have seen the papers reporting the discussion between Mr. Tebbit, Mr. Ridley and the Chancellor on the sale of Sea Link. The Chancellor has now minuted - Flag A - supporting the pressing on with the sale.

Flag B

Flag C

Mr. Tebbit has accepted this and will be issuing a press notice tomorrow saying:

(i) Four companies will not be referred to the MMC

(ii) P&O will be and will thereby be put out of the running for Sea Link

(iii) European Ferries will not be released from their undertaking not to acquire Sea Link

From the standpoint of competition this is satisfactory as it ensures that Sea Link will not go to one of the existing operators on the main cross Channel routes.

AT

ANDREW TURNBULL

14 May 1984

A

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

14 May 1984

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Transport

Dear Nick

SEALINK

You wrote to me on 11 May and I subsequently received a copy of Norman Tebbit's letter to you of 10 May.

I share your view that the best course in the present circumstances is to allow the trade sale of Sealink to go ahead on the basis already agreed. Since Norman has decided that he cannot allow P&O to bid for Sealink without a reference to the MMC, this will mean that P&O must be excluded. I can understand Norman's concerns, but it is important to maintain the momentum of the privatisation programme, and I think it would be difficult to pull back on Sealink, having gone so far.

I agree too, however, that if the bids that are received for Sealink prove unsatisfactory, we shall have to start again. In particular, we will need to be able to demonstrate in due course that sufficient bids have been received to ensure that a proper market price has been obtained.

I am sending copies of this letter to the Prime Minister, the Secretary of State for Defence, and the Secretary of State for Trade and Industry.

Yours
Nigel

NIGEL LAWSON

ECON POL: Privatisation Pt 9

B

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF6519

Secretary of State for Trade and Industry

14 May 1984

CONFIDENTIAL AND
MARKET SENSITIVE

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Nigel,

SEALINK

I have seen Nicholas Ridley's letter to you of 11 May. As I am away in the United States from 14 to 18 May, I simply wanted to confirm that it must be for you and Nicholas to determine where the balance of advantage lies on P&O. My decision remains that a P&O bid must be referred - either now or, if P&O were kept in the running, at a later stage if P&O came up with the best offer. In that sense any bid by P&O would be conditional.

2 So far as the timetable is concerned, it is our usual practice to inform the companies of decisions on references very soon after they are taken. But there is nothing rigid about this; from our point of view, an announcement need not be made on Tuesday, but I understood that it was BRB who were anxious to have the situation clarified as soon as possible.

3 I am copying this letter to the Prime Minister and the Secretaries of State for Transport and Defence.

Yours
Norman

NORMAN TEBBIT

ECON POL: Privatisation Pt 9

CONFIDENTIAL
MARKET SENSITIVE

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Secretary of State for Trade and Industry

14 May 1984

Andrew Turbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

SEALINK

As we discussed today, the Department will be issuing a press notice to explain my Secretary of State's view on the bids which have been received for Sealink in response to offers from the British Railways Board.

2 I enclose a copy of the press notice which has been agreed with the Department of Transport.

3 I am sending a copy of this letter to Margaret O'Mara in the Chancellor of the Exchequer's office and to Henry Derwent in Mr Ridley's office.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

JH2AKL

C

Press Notice

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office:01-215 3919/3789 Ref: 275
Out of hours: 01-215 7877

May 15, 1984

PROPOSED BIDS FOR SEALINK UK LTD

A number of proposals to acquire Sealink have emerged in response to a request for offers on behalf of the British Railways Board (BRB).

The Secretary of State for Trade and Industry, Mr Norman Tebbit, has now considered advice from the Director-General of Fair Trading on whether these proposals should be referred to the Monopolies and Mergers Commission. In accordance with the Director-General's advice, he has decided not to refer proposals to acquire Sealink by the following potential bidders:

The "Sealink Consortium"
Trafalgar House PLC
Sea Containers Limited
Ellerman Lines PLC

The Director-General considered that the proposed acquisition of Sealink by P & O raised issues which merited investigation, and should not be allowed to proceed in the absence of a full investigation and report by the Monopolies and Mergers Commission. The Secretary of State agreed with this advice. BRB informed potential buyers of the terms for the sale to implement the policy agreed between Government and BRB for the disposal of Sealink, and in particular, made clear that all bids would have to be unconditional in all respects. Since the time required for an MMC investigation would mean that P & O would be unable to provide an unconditional bid on the timetable envisaged for completion of the sale, the Secretary of State understands that BRB will inform the company that BRB cannot consider a proposal by P & O to acquire Sealink. In that event, as P & O's proposed acquisition could not proceed, the Secretary of State would not envisage that it would be necessary for him to refer it to the Monopolies and Mergers Commission.

In accordance with the advice of the Director-General, European Ferries PLC is not to be released from its undertakings not to acquire Sealink.

CONFIDENTIAL

File

Noted

MT

PRIME MINISTER

You should be aware of this dispute. Mr. Tebbit feels he must refer any P&O bid for Sealink to the MMC. Mr. Ridley wants to press on with Sealink sale but if he does P&O will be unable to take part in the bidding as, unlike the other participants, it will not have been able to get itself cleared in time. Mr. Tebbit feels this amounts to prejudging P&O's case and suggests delaying Sealink sale. He argued to Chancellor yesterday after you had left meeting that if the "other deal" came off, the Government could afford to postpone. Mr. Ridley, of course, does not know about the "other deal". Policy Unit strongly support pressing on.

AT

11 May 1984

CONFIDENTIAL

PRIME MINISTER

Sealink

We recommend that you support Nicholas Ridley's decision to proceed with the negotiated sale of Sealink, without waiting for a Monopolies and Mergers Commission investigation to clear a bid from P&O. Norman Tebbit is being entirely consistent with his recently declared approach to competition policy in not allowing P&O to bid. This may be hard on P&O but we think that we shall just have to live with this because of the advantages of proceeding with the sale as planned:

1. Presentational

Having invited bids it would be odd then to delay the sale for four months or more because one potential bidder turns out, unsurprisingly, to be a shipping company with cross-Channel interests. We always knew that this was a possibility. In addition, by delaying we would appear to be holding the door open to P&O in rather an obvious way (commentators might not believe that Jeffrey Sterling had not had a hand in the decision).

2. Would the Government be sure of gaining financially?

Maximising the proceeds is not, in our view, the major point about privatisation, but it is an important point. However, the outcome could go either way; a P&O bid might increase the proceeds, but conversely, delaying could just as easily lose one of the interested bidders. Who knows what adverse factor might materialise in the course of the delay?

3. Downside Risk

The downside risk of proceeding as planned is that some of the four potential bidders who have expressed an interest drop out, leaving BR, in the absence of P&O, with unattractive bids. In this eventuality, the fall-back position is to either start the round again next spring, by which time P&O might have secured clearance, or go for a flotation. There is plenty of cover here, if the present operation is abortive.

NICHOLAS OWEN

11 May 1984

CONFIDENTIAL AND MARKET SENSITIVE 2 pps. u/o

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

11 May 1984

Dear Nigel

SEALINK

You have had a copy of Norman Tebbit's attached letter to me with his decision that he would refer a proposed acquisition of Sealink by P&O to the Monopolies and Mergers Commission, who would take four months to report. He leaves it to me to decide who may and may not bid. The note of 10 May attached from the Prime Minister's office records Norman's discussion with you before Cabinet, in which he expressed his anxiety about criticism if P&O were arbitrarily excluded without having had opportunity to present their case, and his suggestion that the Sealink sale might be delayed for this. I think it would have been more appropriate if I had been present at that discussion; and if you have difficulty with this letter I want to discuss it with you immediately. Moreover, I fear the course Norman advocates is impractical.

We all agreed last December to proceed promptly with the sale of Sealink in the way that the British Railways Board are now following. They have gone a considerable way along the road. A number of substantial acceptable bidders

have put their hats in the ring and have been supplied with substantial confidential information. There is simply no basis on which we can judge what the MMC might at the end of the day recommend, whether if the sale were deferred the other bidders would still be interested, whether they would in the event be ready to offer more than P&O, what the fortunes of the Sealink business will be during the peak season this year, or what the effect on the staff of the company and its industrial relations would be of putting everything back until the autumn.

These are all good reasons why the Railways Board wish to proceed promptly, and have stipulated that they will not accept conditional bids. Since Norman's decision prevents P&O making an unconditional bid, they must be excluded from receiving further information. The contingent interest of P&O is not a good enough reason for me to override that view by the Board.

For these reasons I have concluded that it would be wrong for me to do anything to delay the sale. Of course if in the event that fails to produce a satisfactory final bid, we shall have to start again. But I have at present no reason to expect that.

Norman Tebbit's office need to announce his conclusions as soon as possible. I think this should be done on Tuesday.

I am sending copies of this to the Prime Minister, the Secretary of State for Defence and the Secretary of State for Trade and Industry.

Yours ever Nicholas

NICHOLAS RIDLEY

Elons PCR: Privatisation

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a 10

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF6445

Secretary of State for Trade and Industry

10 May 1984

CONFIDENTIAL AND
MARKET SENSITIVE

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

Your letter of 12 April enclosing one from Mr Siddle of European Ferries seeking release from an undertaking not to acquire Sealink, was passed to this Department for reply, since undertakings under the Fair Trading Act are given to our Secretary of State.

2 The Secretary of State has decided, in accordance with the advice of the Director-General of Fair Trading, not to release European Ferries from its undertaking. The company will be informed shortly and I suggest that the Prime Minister's reply should go out after that. I will let you know when the company has been informed.

3 For your own information, the reasons for refusing European Ferries' application are competition-based, and are the same as those which led to the blocking of the original proposal to acquire Sealink, following an adverse Monopolies and Mergers Commission report in 1981. The acquisition of Sealink by European Ferries would produce a dominant company on the Channel routes with a share of at least 50 per cent, and in some cases very much more, in all main sectors of the market. Mr Siddle mentions the need to beat off foreign competition, but there is also the effect on UK competitors (only P & O and hovercraft services would remain, with far smaller shares) to be considered.

4 The then Secretary of State took the decision to block the bid in 1981 in the knowledge that the exclusion of one buyer might affect the price obtained for Sealink. The Secretary of State for Transport has informed British Rail that he will wish

to ...

to take into account competition considerations in granting his consent to the acquisition of Sealink. He does not support European Ferries' application for release from its undertaking; a number of potential bidders for Sealink are currently being considered, many of whom would be unlikely to raise problems as regards competition.

... 5 A draft reply for the Prime Minister to send to Mr Siddle is attached.

6 I am copying this letter to Andrew Melville (Department of Transport).

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Encl

GR PC Type for PM signature

DRAFT

AT

Keith Siddle Esq
Chairman
European Ferries plc
Enterprise House
Avebury Avenue
Tonbridge
Kent TN9 1TH

Thank you for your letter of 12 April about the undertaking given by European Ferries not to acquire Sealink.

You will by now be aware that the Secretary of State for Trade and Industry has decided not to release European Ferries from its undertaking. I understand that in reaching his decision he took into account the points you made to me, as well as all other relevant factors.

PRIME MINISTER

ECON POL: Privatisation

Pt 9

CC NO.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

Secretary of State for Trade and Industry

10 May 1984

CONFIDENTIAL AND
MARKET SENSITIVE

Copies to:
PS/PUSS (CCA)
Sir Anthony Rawlinson
Mr Caines Dep Sec
Mr Wright Hd/GP
Mr Wollman Hd/Sols A
Mr Bradbury Hd/Ec2C
Mr Vile cs.

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

D Nicholas

SEALINK

As you know, I have received advice from the Director General of Fair Trading on whether European Ferries should be allowed to bid for Sealink and on whether bids by a number of others should be referred for investigation by the MMC. This is to confirm what I said to you on the telephone this morning.

European Ferries

2 Although I believe there are arguments in favour of a strong UK force to challenge Continental competion, I accept that European Ferries should not be released from its undertakings and allowed to bid.

Sealink Consortium; Trafalgar House; Sea Containers; Ellerman

3 I agree with the Director General that there are no grounds for a reference of bids by these companies.

P & O

4 I agree with the Director General that there are good grounds for a reference to the MMC of P & O's wish to acquire Sealink. As the Minister responsible for administering the Fair Trading Act, and having made it clear that I am disposed to accept the advice of the Director General on merger references, I could not allow P & O to bid for Sealink without a reference to the MMC. A decision to refer is of course a decision to investigate, not a decision that the proposed merger would on balance be against the public interest. But it is, in my view, vital that that investigation should be made by an independent body; and it would be quite inappropriate for Ministers, or this Department, to take on the

JH1ABM

role.

5 The MMC could complete a report within four months. It is for you to decide whether you can extend your timetable for selling Sealink to accommodate a report and thus enable P & O to bid. If P & O as well as European Ferries were excluded from the chance to bid I would expect considerable criticism that two of the most likely acquirers were being ruled out, in the case of P & O without a proper hearing. What is more, it could well be claimed that the taxpayer would have secured a better price for Sealink if these bids had been considered. But I can understand that you have other considerations to bear in mind, and the decision on who may and may not bid is, of course, one for you.

6 It is the normal practice to announce decisions on references to the MMC. In this case, our respective positions on P & O will have to be made clear at the same time. This will require very careful presentation and I would be grateful if your officials could be in touch with mine about that aspect.

7 I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Defence.

Yours
Norman

NORMAN TEBBIT

Econ Pol : Privatisation

pt 9

CONFIDENTIAL

file

cc Mr Owen

10 DOWNING STREET

From the Private Secretary

10 May 1984

Dear Callum,

Sealink

Your Secretary of State spoke to the Chancellor of the Exchequer before Cabinet today about the sale of Sealink. He was concerned that excluding P&O as a bidder would be subject to severe criticism. P&O's position was different from that from European Ferries which had been the subject of an MMC ruling. Ministers would be vulnerable to criticism that P&O had been arbitrarily excluded without having had an opportunity to present its case. Your Secretary of State suggest that the proceeds from the Jaguar privatisation and other asset sales in prospect would be sufficient to allow the Sealink sale to be delayed, thereby allowing P&O's eligibility as a bidder to be reviewed. The Chancellor of the Exchequer acknowledged this point and it was agreed that it should be considered further by officials.

I am copying this letter to David Peretz (HM Treasury), Andrew Hudson (Financial Secretary's Office) and Dinah Nichols (Department of Transport).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

SLIABU

CONFIDENTIAL

CONFIDENTIAL

FILE
cc
bc JP

10 DOWNING STREET

From the Private Secretary

8 May 1984

Wytch Farm

The Prime Minister has seen your Secretary of State's minute of 4 May. She is very pleased that an outcome has been reached which keeps faith with the Dorset group but ensures that the effect of the Budget is fully reflected in the price.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

cc/po

Prime Minister
Agree this as a satisfactory outcome, keeping faith with the Dorset group but having the Budget fully reflected in the price?
AT 4/5

PRIME MINISTER

Yes - delighted MT

WYTCH FARM

As foreshadowed in my minute of 2 May, I met the Dorset Group yesterday to ask them to improve their bid.

You will recall that the Group's original bid comprised an initial payment of £80 million, a second payment of £80 million when production from the field reaches 20,000 bpd, and a net production interest of 40% on cumulative production over 25 million barrels. We persuaded them yesterday to increase these figures to £85 million, £130 million and 40%. In net present value terms, this represents an improvement at a 10% real discount rate of £41 million on a central case compared with the pre-budget bid.

This is £4 million better than the offer foreshadowed by RTZ/Charterhouse. The Chancellor and I are both satisfied that, having regard to all the circumstances, particularly the risks, uncertainties and inevitable delays involved in following any other approach, it would be both commercially justifiable and in the national interest to proceed with the sale to the Dorset Group on this basis.

I am therefore asking British Gas to conclude the sale as quickly as possible, and I would hope to be in a position to announce the outcome in the fairly near future.

I am copying this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Peter Walker

SECRETARY OF STATE FOR ENERGY
4 May 1984

ECM (87) Pt 9

Privatisation

NBPM

AT 3/5

Ref. A084/1338

MR TURNBULL

in PM Box.

The Secretary of State for Energy has sent me a copy of his minute of 2 May to the Prime Minister about Wytch Farm.

2. I agree with the Secretary of State for Energy that it is right to follow the advice given by Warburgs. The fact that they have given that advice would help to protect the Secretary of State for Energy from any possible Parliamentary decision, and the course recommended looks like the best way of getting out of the present difficulty.

RTA

ROBERT ARMSTRONG

3 May 1984

CONFIDENTIAL

FILE da
cc DP

10 DOWNING STREET

From the Private Secretary 3 May 1984

WYTCH FARM

The Prime Minister was grateful for your Secretary of State's minute of 2 May and agrees with the approach which, following merchant banking advice, he and the Chancellor are recommending.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

MR. A. TURNBULL

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

CST

cc NO

Prime Minister ①
Agree this approach?
AT 2/5

Yes MT.

Prime Minister

WYTCH FARM

The Chancellor and I have now completed the further consideration of this issue, taking account of merchant banking advice, which you requested at your meeting on 7 April. At Nigel's request, I am writing to let you know our joint conclusions.

The nub of Warburgs' advice is that we should give the Dorset Group an opportunity to improve their bid further, rather than proceed to any wider re-offer at this stage. This follows on from Warburgs' conclusion that although the Dorset Group can reasonably have felt that the Government were committed to a sale to them before the Budget changes, it is wholly reasonable for the Government to expect to receive an increase in the proceeds which takes account of these changes, while maintaining its commitment to a sale to Dorset. They further conclude that it is reasonable for the Government to hold the view that the improved bid we so far have from Dorset does not properly reflect the extra value resulting from the Budget, and that a value for the Budget changes should be capable of being agreed between the parties.

In putting forward their advice, Warburgs recognise that the Government is not in precisely the same position as a private seller engaged in a similar transaction, although their views are naturally directed to this latter situation. However, Nigel and I are both satisfied that the course they recommend is the most appropriate for us to follow, having regard to the history of the negotiations with Dorset so far and to our general privatisation objectives; and is, given the risks and uncertainties involved in following any other approach, the best in all the circumstances for the Exchequer.

The Budget added between £33 million and £62 million to the net present value of the assets at a 10% real discount rate, across a wide range of assumptions on oil prices, production etc. but only £8 million to £21 million to the value of the bid. Concentrating on a central case, the value of the assets increased by £45 million. The revised Dorset offer now represents in total an improvement of £23 million on the pre-Budget position. There therefore remains a gap of £22 million and Nigel and I have agreed that we should put this gap to Dorset and ask them to improve their offer. I am therefore proceeding with an approach to the Dorset Group along these lines.

If that approach is successful, there would still be a need for further discussions with British Gas to tell them to proceed on the basis of the revised offer.

I am copying this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

2 May 1984

Econ Pol: Privatisation : Rel

file
cc CST

Brf

10 DOWNING STREET

From the Private Secretary

1 May 1984

Dear Christine,

Thank you for your letter of 27 April about the Horserace Totalisator Board. The Prime Minister accepts the arguments set out in your letter on the prospects for transferring the Tote to the private sector. As I mentioned to you, the Prime Minister was concerned that these arguments should be conveyed to Sir Woodrow Wyatt and you undertook that Mr. Hurd would in any event be writing to him.

Yours ever,

Th

(Timothy Flesher)

Mrs. C.J. Heald,
Home Office

Brf

PRIME MINISTER

You asked in relation to the attached minute from the Home Office about the Tote whether the information set out in it could be communicated to Sir Woodrow Wyatt. I understand that Mr. Hurd is writing to Sir Woodrow covering all the points raised.

30 April 1984

FILE

RM

10 DOWNING STREET

From the Principal Private Secretary

27 April, 1984

Dear Michael,

I should report to you that a Mr. David Boyd, Chairman of Goal Petroleum, which is a member of the Dorset Group, telephoned me today ostensibly to ask my advice about how an approach should made to the Prime Minister if the Dorset Group did not receive an early reply from Mr. Walker about the bid for Wytch Farm. I said to Mr. Boyd that the Prime Minister was well aware of the problem, that there was no lack of sympathy for the Dorset Group, but that the case raised for the Government genuinely difficult questions of accountability and relations with a nationalised industry. The problem would not therefore simply be resolved by an appeal to the Prime Minister.

Mr. Boyd said that he was grateful for this advice and, while he explained that the delay in this matter was causing great problems for the members of the Dorset Group for which they had to account to their shareholders, my impression by the end of the conversation was that he accepted that the matter would not best be pursued by an appeal to the Prime Minister. Mr. Boyd rang me in the first place because we were acquaintances many years ago and our conversation was affable throughout.

I am copying this letter to David Peretz (HM Treasury).

Yours sincerely,

Robin Butler

M. Reidy, Esq.,
Department of Energy.

RM

From: THE PRIVATE SECRETARY

cc 0/0

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

Prime Minister

Woodrow Wyatt raised this with you. Content with the Home Secretary's approach?

DMB 27/4

Can this be communicated to Sir Woodrow?

MT

27 April 1984

Dear David,

THE HORSERACE TOTALISATOR BOARD

You wrote on 28 March asking for a note setting out the Home Secretary's views on the proposals from the Horserace Totalisator Board (the Tote) for their transfer to the private sector and the way it will be progressed. I enclose a note which examines the possibility of transfer.

The Home Secretary has examined and discussed the possibility of transferring the Tote to the private sector. Both he and Mr Hurd were anxious that the concept should be looked at sympathetically. However he has concluded after an examination of the Tote's origins, functions and powers that 'privatisation' - the sale to the public sector of publicly owned assets, the proceeds to go to public funds - cannot be applied in those terms to the Tote. The note enclosed sets out the discussion in more detail but the arguments are these.

? *private

First the Tote is not a publicly owned body in the usual sense. If it was sold to the private sector the proceeds would not go to public funds. The Horserace Betting Levy Board would probably have the best claim. Second, the Tote makes no call on public funds and only minimally on public service manpower, so privatising it would lead to no savings there. Third, the Tote is a non-profit making body; one of its functions is to provide money for racing through its betting activities. No private sector buyer would be interested in taking it on in those terms, while the racing world would be strongly opposed to any arrangement which took some or all of the Tote's 'profits' from racing to give to shareholders. Fourth, the totalisator operation is a natural monopoly and if privatised would have to be subject to more detailed control than is necessary for a Board to which the Home Secretary appoints the Chairman and members.

/The

David Barclay, Esq

The Home Secretary's present conclusion is therefore that transfer of the Tote to the private sector would not have the advantages normally sought from this kind of exercise. He does consider, however, that there is scope for the regime under which the Tote operates to be liberalised. The Chairman of the Tote has asked for extensions of its powers to conduct pool betting on sports other than horseracing and to take fixed odds bets on non-sporting events. The Home Secretary has asked the Minister of State (Mr Hurd) to pursue these with Sir Woodrow Wyatt, and discussions on these and other issues of concern to the Tote will be held shortly, following a number of informal conversations between Sir Woodrow and Mr Hurd.

Yours ever,

Christine.

MRS C J HEALD

THE HORSERACE TOTALISATOR BOARD

Before looking at the question of transferring the Tote to the private sector it is necessary first to set out the background to the Tote itself.

Origin and functions of the Tote

2. The primary function of the Tote is to contribute money to racing. The Tote was originally set up by the Racecourse Betting Act 1928. Under that Act, a Board was established, with five Government members and seven nominated by racing, and given power to run totalisator betting on racecourses or to authorise any other person to do so. The Board was also given power to borrow and lend money for its purposes. Money staked with the Tote was required to be distributed among winners, subject only to the deduction of a percentage to be fixed by the Board. Deductions were required, after expenses had been met, to be put into a fund to be distributed in accordance with a scheme, prepared by the Board and approved by the Home Secretary, for purposes conducive to the improvement of breeds of horses or the sport of horseracing. The Board set itself up by borrowing money from the private sector. It was not the recipient of Government funds.

3. The second main function of the Tote is to provide an alternative service to the customer. Originally this had a social element in that the Tote was (and perhaps still is) seen as a more respectable form of betting preferred by many to betting with bookmakers. More recently, the price returned by the Tote's pools is seen as a necessary element of competition with the bookmakers' prices, given that the on-course market could be dominated by the large bookmaking chains enabling them to manipulate the prices against the public interest.

4. The Board's powers were first extended by the Betting and Gaming Act 1960 which enabled the Board to engage in pool betting off-course as well as on-course. They were narrowed in the following year by the Betting Levy Act 1961 which transferred the function of distributing money to racing to the newly created Horserace Betting Levy Board and, in consequence, reduced the size of the Board to 4 (the non-government appointed members being eliminated) which henceforth became renamed the Horserace Totalisator Board; and abolished the totalisator fund, the Board's surpluses becoming payable instead to the Levy established by the same Act.

5. Following the legalisation of off-course betting offices in the 1960s racecourse attendances declined and the Tote's on-course operations became increasingly unprofitable. In order to enable the Tote to continue to provide an on-course pool betting service in competition with bookmakers, the Tote had to be able to offer customers off-course the same facilities as bookmakers were able to. Shops providing only Tote odds were at a fatal disadvantage compared with the ordinary bookmaker. The Tote could only survive if it could tap the profitable off-course fixed odds market. So the Tote Board's powers were extended by the Horserace Totalisator and Betting Levy Board's Act 1972 which empowered the Board to undertake fixed odds betting in addition to pool betting (and removed the limit on the size of the Board).

6. Today the Tote has a monopoly of pool betting on horseracing on and off-course and can take fixed odds bets on any sporting event. (The Secretary of State can by order extend the Tote's powers to cover betting on other events).

7. The Tote has never received any public funds, nor is any public service manpower devoted to it (apart from small proportions of the time of a few Home Office officials). Furthermore the Government has no contingent liability if the Tote runs into trouble. This was made quite clear in an exchange of correspondence with the Chairman in 1979.

8. The Tote is unique. It is not a nationalised industry in the usual sense. It is a non-profit making body the Chairman and members of whose Board are appointed by the Home Secretary, and whose 'profits' go to benefit racing.

Privatisation

9. Privatisation is usually achieved by sale to the private sector of publicly owned assets, the proceeds of which go to public funds. As the examination of the Tote's origins and functions above suggests, privatisation cannot be applied in those terms to the Tote. As the Tote has never received any public funds, the Government would have neither legal nor moral claims on the proceeds of the sale of the Tote. There would therefore be no question of the Government receiving financial gain from the sale. Indeed as the Tote and its predecessor have pulled themselves up by their own bootlaces it is difficult to see who the appropriate beneficiary of any such sale might be. The Horserace Betting Levy Board would probably have the best claim on the proceeds.

10. Taken in isolation, the Tote's bookmaker function does not have to be exercised by a statutory body. It could be disposed of to the private sector relatively easily. But, run by the Tote, this activity generates a surplus from which racing benefits and it has probably also succeeded in keeping the Tote's pool betting in existence.

11. The Tote's pool betting operation, its original function, is another matter. Like a lottery, pool betting is capable of substantial manipulation at the expense of the customer if it is not properly run. The lightest controls in this area are those over the football pools which are, however, more or less sui generis. The totes run by dog tracks are subject to detailed and elaborate controls contained in statutory regulations, and these include apower for the Secretary of State to fix the percentage which the operators may deduct. The probability is that the controls necessary to ensure that a 'privatised' Tote operated with propriety might in practice prove more onerous than those which the Tote currently operates under.

12. As the Tote is non-profit making it is difficult to see who would be interested in buying it if the profits continued to go to racing. The racing world would be strongly opposed to any diminution of the income of racing and it is difficult to see what advantages might flow from such a diversion of the profits.

Home Office
April 1984

Econ Pol: Privatisation A9

26 April 1984

PRIME MINISTER

THE BUS INDUSTRY

Mr Ridley's radical proposals deserve the warmest welcome.

The 1980 deregulation of long distance bus services was arguably this Government's greatest liberating move in the transport field. For thousands of travellers and holiday-makers it opened up visibly greater choice of travel modes and lower fares.

Mr Ridley is now proposing to extend deregulation and competition to stage carriage (short distance) services in cities, towns and the countryside. He is also proposing to make it easier for smaller operators and small vehicles to compete with the large subsidised operators of big buses. The gains will reach into many thousands more homes, to the benefit of travellers, ratepayers and taxpayers alike.

1. WHY CHANGE?

The growth of mainstream bus subsidy during the 1970s and 1980s makes appalling reading:

£million	1969	1972	1979	1982
Revenue Support	1	10	185	490
Concessionary Fares	1	12	137	235
Fuel Duty Rebate	c.7	21	60	93

And there are other smaller categories of expenditure. Within these bloated totals, the Mets have grossly overshot their provisions, which means that large parts of the total subsidy are effectively out of control. Yet because the money is widely scattered, the public probably does not appreciate that the bus industry costs the nation:

- nearly as much as coalmining;
- more than British Rail;
- more than BL, British Steel and British Shipbuilders put together.

Cutting back bus subsidy to White Paper levels without structural change in the industry will destroy many services, and the Government will take the blame. If

services are maintained, but without structural change, subsidy will continue to soar. So doing nothing is not an option.

2. WHY DEREGULATE?

Only the persistent frustration of market forces could have produced a situation such as we now have, and only the public sector could have kept it up for so long. For over 50 years local monopoly operators have suppressed competition by the rigid application of quantity licensing through the Traffic Commissioners and by 'coordination' of services with the railways. The bus industry is now very nearly all in the public sector, so it has been able to dip shamelessly into the public purse. Subsidy has not just leaked into inefficiency - it has flooded. While the volume of bus passenger journeys fell by 30% over the ten years to 1982, real fares rose by 30%, and the real value of revenue support 14 fold!

The only effective lever now available to Government is competitition through deregulation. Because that is largely unmapped territory, Mr Ridley's working group looked at tentative forms of deregulation - for instance, by area, by vehicle type, or by operator type. But the boundaries between regulation and deregulation would be so absurdly unmanageable as to rule out partial remedies.

3. WHAT WILL THE RESULTS OF DEREGULATION BE?

In precise terms we do not know, because no-one under the age of about 75 will have adult recollections of a deregulated bus industry. But overseas experience, and the three UK Trial Areas for deregulation, confirm that the system does not fall apart the moment regulation is lifted.

Subsidy will certainly come down, probably very dramatically.

In conurbations, more competing services will arise, so road congestion and buccaneer driving are held up as adverse possibilities. The existing law, coupled with Mr Ridley's more stringent quality controls will take care of driving standards. As to congestion there will be a trade-off between more public service vehicles and fewer cars. We cannot predict where the new balance will lie; but cost is decisively influential in determining travel patterns, so reduced public transport costs arising from competition should persuade more motorists to leave their cars at home.

Rural areas are not going to be stripped of services. The rural bus market has been in retreat since the 1950s. In

deep rural areas, there can be little or no route cross-subsidy left to reduce through competition. In rural areas skirting conurbations, the loss of cross-subsidy could bite, but it remains open to local authorities to invite tenders for routes which they regard as socially important. The Shires will have, for deep rural and semi-rural areas alike, either more services for the same money or the same services for lower subsidy - or most probably a combination of the two. Above all, we should note that the Shires are not big spenders or overspenders. So they are not targets in the sense that the Mets are.

4. WHO WILL OPPOSE THE PROPOSALS?

Nearly everybody in sight. We will have a re-run of the 1980 opposition to long-distance bus deregulation - but look at the benefits.

Within E(A)

Patrick Jenkin is vehemently opposed to Nicholas Ridley's proposals on the grounds (a) that we risk decimating rural services; and (b) that abolition of the Mets will be needlessly complicated. On the latter point, we believe that Patrick needs bus deregulation to help him win the local authority spending battle. Abolition and rate-capping will not by themselves put matters right. Furthermore, he must also see that deregulation must precede abolition. If it is done the other way about, transport precepts will have to be contained with a severity which will drastically raise fares and/or destroy services.

Mr Younger has come to a pragmatic view which we find entirely acceptable.

We hope that Employment could take the long view. There must be an initial shake-out of labour - current inefficiencies make that inevitable - but other services will arise, especially in conurbations. And downward pressure on fares can only help the greater labour mobility we need so badly.

We would expect Treasury and DTI to weigh in heavily on Mr Ridley's behalf. Subsidy reduction on the scale suggested is a glittering prize, and so is the opening up of competition into this over-regulated, moribund market.

Outside Cabinet

Our own MPs will be nervous, especially those in rural areas, but careful presentation of the facts and thinking could reassure them. Mr Ridley has already taken steps to safeguard the provision of concessionary bus travel in London, and he has the benefits of the 1980 deregulation

to point to. He is very obviously no butcher of bus services.

Consumer bodies will probably display the same nervousness as MPs, but the same counter arguments apply.

Resistance from the management of the National Bus Company (and especially from Alfred Sherman, who is advising them) could be bitter. They are keen to see NBC privatised whole - with an annual subsidy of nearly £150 million before deregulation and a dominant position afterwards. We must stand firm on our principles of competition and subsidy reduction.

Finally, bus and rail unions will react with Luddite arguments, since new, more efficient bus services will challenge existing bus and rail operations, where there is vast scope for efficiency gains. Self-evidently, the interests of travellers, ratepayers and taxpayers should take priority.

5. RECOMMENDATIONS

We strongly support:

i. the three main measures to stimulate competition:

- deregulation across the nation (ie outside London where separate legislation is now going through the House);

- transparency of subsidy, and tendering as a condition of subsidy;

- the breakdown of PTEs into smaller units, the conversion of Municipal Operators into limited companies and break-up of NBC in conjunction with privatisation.

ii. two measures which will encourage alternative forms of public road transport, especially in less populated areas:

- the creation of shared taxis and the abandonment of quantity controls on taxis outside London;

- the even-handed treatment of minibuses and traditional buses.

iii. The reassurance of undiminished safety standards:

- bringing London hire cars under quality licensing

We urge E(A) and the eventual White Paper, to emphasise that deregulation should improve rural services, not threaten them.

We recommend that Mr Ridley should make his mind up on Fuel Duty Rebate. This concession is worth nearly £100 million to bus operators. It would be a sizeable distortion in a deregulated market. We could not afford to extend the rebate, even if it had any underlying logic about it, so it should be phased out.

This radical package of measures is not one which should be taken to pieces so that the easy bits can be enacted and the difficult ones left to gather dust. Successive Transport Ministers have acquiesced for decades in 'protecting' consumers from a competitive market in bus transport; bus usage and services have declined nevertheless; and subsidy has gone from nearly nothing to nearly a billion in 15 years. The time has come to say, 'Enough is enough'.

ROBERT YOUNG

LARAAG

1) Fewer & fewer people want to travel by bus.

? withdrawal

2) Fares held down in Nets.

Mileage kept on which passenger falling.

Easiest way of reducing subsidies to be put fares up

3) Rural areas — bus mileage will continue to decline.

Cost per passenger mile - rising.

Post-buses — community buses

How much extra subsidy may be required in rural areas

J.B. much more flexible system required

4) Innovatory grant.

Can't do nothing.

Operators licence

Driver's licence

Vehicle testing.

Competence & professional standing.

Noted AT 16/4

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

13 April 1984

Dear Mr Turnbull

Thank you for your letter of 12 April to Dinah Nichols enclosing one from Mr Siddle of European Ferries about the privatisation of Sealink.

Although we are in the lead on this, the specific question of whether European Ferries should be released from their undertaking under the Fair Trading Act is for the Department of Trade and Industry, to whom I am transferring this correspondence.

Yours sincerely

Andrew Melville

ANDREW MELVILLE
Private Secretary

Transfer DTI

Mr Miles
advice please
Bar No 10

10 DOWNING STREET

From the Private Secretary

12 April 1984

Dear Dinah,

The Prime Minister has received the attached letter from Mr K Siddle, Chairman of European Ferries PLC.

I should be grateful if you could provide any advice together with a draft reply for the Prime Minister's signature, to reach me by Thursday 26 April.

I am copying this letter and enclosure to Andrew Lansley (Department of Trade and Industry).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Miss Dinah Nichols
Department of Transport

European Ferries Plc

Enterprise House, Avebury Avenue
Tonbridge, Kent TN9 1TH
Telephone: (0732) 366066
Telex: 957488 Ferrys G

KS/LW

BY HAND

12th April 1984.

Ack 12/4

PRIVATE & CONFIDENTIAL

The Rt. Hon. Mrs. Margaret H. Thatcher,
10 Downing Street,
London, S.W.1.

Dear Prime Minister,

Sealink UK - Privatisation

Sealink UK is being privatised. We welcome that decision and we feel that we should be able to join the auction. However, we cannot do so because the Monopolies and Mergers Commission imposed, by virtue of the Fair Trading Act 1973, an undertaking upon us which precludes us from making a bid.

We feel that, paradoxically, the 1973 Act will not operate, in this instance, for the benefit of the consumer, that it places us at a grossly unfair disadvantage and that it could substantially reduce the price which the taxpayer would otherwise receive from the sale. Our reasons are as follows:

(i) The acquisition of Sealink UK would enable us to beat off the unfair "competition" from the State-subsidised continental operators. As a result of that acquisition, we could make larger fare reductions than any other operator or potential purchaser. Those reductions would be not less than 15 per cent. and could be as much as 20 per cent. or even more.

/Contd. . . . . .

European Ferries Plc

Enterprise House, Avebury Avenue
Tonbridge, Kent TN9 1TH
Telephone: (0732) 366066
Telex: 957488 Ferrys G

(ii) We have demonstrated over many years that we can succeed at times when others fail. We do not ask for favours but we do ask that we should not be treated unfairly. Given an equal opportunity with other bidders, we are confident that we can build greatly on our success and create further wealth and employment opportunities within the U.K.

(iii) Our inclusion in the auction will ensure that the British Railways Board will not only obtain, but will be seen to obtain, the best possible price - whether from European Ferries or another (higher) bidder - from the sale of Sealink UK.

Speaking for us all at European Ferries, I do hope that you will see fit to allow us to bid for Sealink UK. Naturally, if you feel that a meeting would be of assistance, I will be pleased to come to see you at any time and entirely at your convenience.

Yours sincerely,

K. Siddle,
Chairman.

Fve

ASSOCIATED BRITISH PORTS

Line to take

Associated British Ports has made outstanding progress since it was privatised in February last year. It has increased profits and had exceeded its dividend forecast. Around 8,000 employees have taken up shares in the company and have seen all their investment more than double. The company is an excellent advertisement for the Government's privatisation programme.

Why no Statement to the House?

I understand there is a Question for Written Answer on the Order Paper today. This is entirely in accordance with the procedure set out by My Right Honourable Friend the Chief Secretary during the Budget Debate when he said:

> "To put the matter beyond doubt, I should make it clear that it is the Government's policy to sell such shareholdings as the circumstances of the companies, the prospectus undertakings and market conditions permit. I assure the House that a full announcement will be made at the time when individual sales are made."

This will be honoured in the Answer My Right Honourable Friend the Secretary of State for Transport will be making shortly.

/Sales of this kind

Sales of this kind should be preceded by an Oral Statement

There is no clear precedent for this. As My Right Honourable Friend the Chief Secretary made clear to the House, the Government intends to dispose of its residual shareholdings as circumstances allow.

KG

✓ Press Office

HOUSE OF COMMONS

Mr John Watts (Con - Slough):

146 To ask the Secretary of State for Transport, what further plans he has for introducing private capital into the transport industry.

MR NICHOLAS RIDLEY

In his speech on 14 March in the debate on the Budget Resolutions, my rt hon Friend the Chief Secretary affirmed that it is the Government's policy to sell its minority residual shareholdings in privatised undertakings as the circumstances of the companies, the prospectus undertakings and market conditions permit.

The Government has today completed arrangements for the offer for sale by tender, at a minimum tender price of 250p per share, of its remaining shareholding in Associated British Ports Holdings P.L.C. This comprises the 19,400,000 ordinary shares of 25p each, representing 48.5% of the issued share capital of the company, which the Government has held since the successful flotation of ABPH in February 1983. The Company's good performance since privatisation strengthens the case for the sale.

Arrangements for the sale have been made and underwritten by J Henry Schroder Wagg and Company Limited on my behalf. The brokers for the offer are W Greenwell and Company, Cazenove and Company, and Kitcat and Aitken.

The prospectus has today been placed in the Library. Abridged particulars will be published in newspapers tomorrow, and the full prospectus on Thursday, when copies will also be available to the public at all branches of Lloyds Bank and, in Northern Ireland, of the Bank of Ireland. The application list will open at 10.00am on Tuesday 17 April. The striking price and the basis of allocation are expected to be announced the following day.

To encourage a wide range of ownership, arrangements have been made for small investors to make applications for up to 1000 shares each at the striking price. Preferential consideration will be given to employees who wish to make a similar purchase, and such applications will be accepted in full within a ceiling of 1 million shares.

The Government will meet its share of the costs of the sale out of the proceeds of the offer. Parliamentary approval for expenditure to cover the costs of the sale will be sought in a Revised Estimate for the Sale of Shares in Associated British Ports (Class VI Vote 5). Pending that approval the necessary expenditure will be met by repayable advances from the Contingencies Fund.

Tuesday 10 April 1984
Department of Transport

1645/83/84
(23)

ASSOCIATED BRITISH PORTS HOLDINGS PLC

Privatised February 1983

90% of the then 9,200 employees became shareholders.

Profit before tax 1983	-	£14.5 million
Profit before tax 1982	-	£5.5 million (equivalent to £8.9 million on present financial basis)
Dividend 1983	-	8.5p ("Not less than 7p" foreshadowed at privatisation)
Traffic handled in 1983	-	82.6 million tonnes (up 7½% on 1982)
Offer price per share at privatisation	-	112p
Minimum tender price for present offer	-	250p
Closing price 9 April	-	270p (FT index)
Discount on closing price	-	7.4%
Proceeds at minimum tender price	-	£48.5m
Costs of Sale	-	approx £2m.

Underwriting in progress
DRAFT 3
LCB/HC/D87
9.4.84

PRESS RELEASE

(for immediate release)

OFFER FOR SALE BY TENDER OF 19,400,000 SHARES
IN ASSOCIATED BRITISH PORTS HOLDINGS P.L.C.

J. Henry Schroder Wagg & Co. Limited, on behalf of the Secretary of State for Transport, is arranging the Offer for Sale by Tender of 19,400,000 ordinary shares of 25p each in Associated British Ports Holdings P.L.C. ("ABPH") at a minimum tender price of 250p per share. 100p will be payable on application. The balance of the purchase price will be payable by 3.00 p.m. on 13th July, 1984. The shares are being sold ex the right to receive the proposed final dividend of 5.5p net per share which is recommended for payment on 29th May, 1984.

The Offer for Sale has been underwritten by J. Henry Schroder Wagg & Co. Limited. The brokers to the Offer for Sale are W. Greenwell & Co., Cazenove & Co. and Kitcat & Aitken.

In February 1983 H.M. Government reduced its 100 per cent. holding in ABPH by means of a public Offer for Sale of 19,600,000 shares. It has also provided a total of 1,000,000 shares in ABPH to the Trustees of ABPH's Employee Share Ownership Scheme free of charge. H.M. Government now holds 19,400,000 ordinary shares, representing 48.5 per cent. of the issued share capital of ABPH. Under this Offer for Sale, H.M. Government is disposing of the remainder of its interest in the share capital of ABPH.

In the proposed text of the Chairman's Review for the year ended 31st December, 1983, which is included in the Prospectus which will be published in the national press on Thursday, 12th April, 1984, Keith Stuart, Chairman of ABPH, stated that:

> "The outstanding event of 1983 was, of course, the privatisation of the Company, including a major involvement of employees as shareholders. Privatisation has brought greater commercial freedom, allowing fuller use of our assets and expertise. This new freedom is already being turned to good account by our participation in a number of joint ventures: Mayflower Container Terminal Limited at Southampton, Southampton Freeport Limited, Lowestoft Container Terminal Limited, and Universal Pipe Coaters Limited at Immingham.

Cont .....

Further substantial improvement

Following the strong recovery in the Company's performance in 1982, I am pleased to report a further substantial improvement in 1983. Pre-tax profit increased to £14.5 million in 1983 from £5.5 million in 1982 (equivalent to approximately £8.9 million if the new capital structure and the revised contractual and other arrangements coincident with privatisation had applied throughout 1982). After tax, the profit improved to £9.6 million from £5.8 million (£5.0 million on the basis of the revised arrangements).

Towards the end of the year there were welcome signs of an improvement in overall trading conditions although some sectors such as steel remained depressed. The nineteen ABP ports again succeeded in raising their total volume of business, which reached 82.6 million tonnes, an increase of 5.7 million tonnes on 1982 and the highest total thoughput since 1976. Container and roll on/roll off traffic reached a new record level and there was increased activity from the offshore energy industries, for which several of our ports provided a variety of services.

Dividends

An interim dividend of 3p was declared on 15th September, 1983 and the Directors are recommending a final dividend of 5.5p, making a total of 8.5p net per share in respect of 1983. A total dividend of not less than 7p per share was foreshadowed in the Offer for Sale at the time of the privatisation of the Company.

Southampton

At Southampton, the joint venture with the C.Y. Tung Group of Hong Kong, Mayflower Container Terminal Limited, began operation and has quickly established itself by attracting important new business in the North Atlantic and South American trades. Substantial tonnages were handled through the two new grain terminals at the port.

An important development since the end of the year was the selection of Southampton as the site for one of Britain's first freeports. Southampton Freeport Limited is another of the new joint ventures which were initiated during 1983. Our partners are Trafalgar House, Ocean Cory and Kleinwort Benson. Preparations are in hand for freeport operations to start during the second half of 1984, but of course it will be some time before the full potential of the freeports is realised.

Humber Ports

Our Humber Ports, with the exception of Hull, had another excellent year. At Grimsby and Immingham traffic reached record levels. At Immingham we established a new joint venture with Humberside Sea and Land Services Limited, which is partly owned by Powell Duffryn. The new company, Universal Pipe Coaters Limited, has expertise in the coating of onshore and offshore pipelines, and is strategically positioned to benefit from the expected renewal of activity in the southern part of the North Sea. Goole continued to attract new business, and we are pursuing an active investment programme to improve facilities at the port.

Cont .....

The trading situation at Hull was adversely affected by an industrial dispute, which led to a significant reduction in revenue. The dispute ended in September with the acceptance of improvements in productivity as the basis for a pay increase, but inevitably it is taking some time for the port's business to be rebuilt. By the end of the year there were encouraging signs of trade returning to the port.

South Wales Ports

Comparison of results for our South Wales Ports is complicated by the settlement of revised terms for the commercial agreement with the British Steel Corporation which took effect in January, 1983. Reduced revenue of approximately £2 million per annum from the facilities at Port Talbot has to be set against the cash receipt of £24.5 million which is dealt with in the extraordinary items in the 1983 accounts.

Excluding Port Talbot, the South Wales Ports showed welcome progress in both financial and traffic terms. Newport benefited from increased exports of cars to the Middle East and increased imports of cars from Japan, and from an expansion of operations at the timber terminal. Although the position at Barry remained difficult, steady progress was made at Cardiff in expanding the port's traffic base. For the longer term there are prospects of additional revenue from the use of some 70 acres of the Company's land at Cardiff under the Dockland Development Scheme. In January 1984 the Company, together with The Land Authority for Wales and South Glamorgan County Council, announced that Tarmac had been selected as the developer for this £50 million scheme. In addition, freeport facilities in Cardiff should provide a stimulus to trade at the port.

Other Ports

The Group's nine Other Ports had another successful and profitable year. At Lowestoft, a new container terminal was established in a joint venture with the Coastal Container Holdings Group, a company with which we have had a long association at our port of Garston on Merseyside.

Board of Directors

In January 1984 I was pleased to welcome Mr. Maxwell Creasey as a new non-executive Director of the Company. He is Deputy Managing Director of MEPC and has long experience in the world of property.

Employee Share Ownership Scheme

The current Employee Share Ownership Scheme has been widely welcomed by our employees and the Directors are convinced that a significant employee shareholding is an excellent means of encouraging a positive involvement in the success of our enterprise throughout the organisation. A further issue of shares to employees is to be made in May on the "matching offer" principle, under which employees are issued with one free share by the Company for every share for which they subscribe at market value.

Cont .....

The Directors will seek approval at the Annual General Meeting for an extension of the Employee Share Ownership Scheme in future years.

Employees

Our good progress was achieved despite continued recession in some of our markets, and reflects the high degree of commitment from employees at all levels to the Company's success.

Outlook

The overall level of business in the early months of 1984 has been satisfactory except that the present dispute within the coal industry is resulting in reduced coal exports through our ports. The impact of the coal industry's problems on our business will depend primarily on how long the dispute continues.

Otherwise, the outlook for the year as a whole offers prospects of a further expansion in the Company's business. Over the longer term, developments during the past year have strengthened and broadened the Company's potential for growth."

The Application Lists will be open at 10.00 a.m. on Tuesday, 17th April, 1984 and will close at any time thereafter on the same date. A person applying for not more than 1,000 shares may make either a Tender Application or a Striking Price Application.

It is expected that the Striking Price and the basis of allocation will be announced on Wednesday, 18th April, 1984. Application will be made to the Council of The Stock Exchange to authorise dealings in the Letters of Acceptance and dealings are expected to commence in partly-paid form shortly after the basis of allocation is announced.

Special application forms are being made available to employees of ABPH and its subsidiaries and any such employee may apply on that form for up to 1,000 shares at the Striking Price. Such applications will be accepted in full up to an aggregate limit of 1,000,000 shares.

The Offer for Sale will be advertised in the national press and available to the public on Thursday, 12th April, 1984. A copy of the Underwriting Proof of the Prospectus is attached to this announcement.

10th April, 1984

PRESS ENQUIRIES:

Associated British Ports Holdings P.L.C. 01-486 6621

Keith Stuart, Chairman
Alastair Channing, Secretary
Roy Westerman, PR Manager

The Department of Transport 01-212 0431

Press Office

J. Henry Schroder Wagg & Co. Limited 01-382 6000

H.G. Ashton
D.N.D. Netherton

file ECL

cc MASTER SET

10 DOWNING STREET

From the Private Secretary

9 April 1984

Wytch Farm

The Prime Minister held a meeting today to discuss the difficulties which have arisen over the sale of Wytch Farm. Present were your Secretary of State, the Chancellor of the Exchequer and Sir Robert Armstrong. The meeting had before it the note attached to your letter to me of 7 April.

The Prime Minister set out the dilemma. If a solution were adopted which meant that Wytch Farm was sold to someone other than the Dorset Group, who had won the original round of bidding and who had spent a considerable sum during negotiations, the Government could be accused of bad faith. While there was clearly no legal obligation the Government could be held to have a moral obligation. Alternatively to accept the Dorset Group's current bid when there existed a higher one could lead to criticism from the PAC that the Government had not secured the best deal for the taxpayer.

One approach would be to ask Dorset to bid again on the grounds that they had taken insufficient account of the impact of the Budget on the value of Wytch Farm. The aim would be not to ask them to match the RTZ bid explicitly but to produce a bid which yielded more or less the same amount. There was no guarantee, however, that this would be the end of the matter as there was nothing to prevent still higher bids from being made.

Another approach was to set a short deadline by which the Dorset Group and RTZ could be asked to submit sealed bids. It was noted that this would in effect allow RTZ back into the bidding when it had been eliminated at an earlier stage. If RTZ were allowed back in, there was no justification for not opening the bid up to others, thereby testing the market fully.

Another alternative was to take the Wytch Farm assets from BGC, combine them with the Enterprise Oil assets and sell them as part of a flotation. While this would ensure that there could be no criticism about the price obtained, it left open the charge of bad faith vis a vis the Dorset Group. It could also delay the flotation of Enterprise Oil.

The Prime Minister asked about BP's right of preemption. It was noted that BP did have such a right but had shown no signs of exercising it, possibly an indication that the price negotiated with the Dorset Group was a reasonable one.

/Summing

Summing up, the Prime Minister said that no solution had been identified which reconciled the conflicting factors. She asked your Secretary of State and the Chancellor to confer further, taking merchant bank advice as necessary. She hoped that, whatever solution was found, would enable a sale to be made without significant delay.

I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

9 April 1984

MR TURNBULL

WYTCH FARM

The Prime Minister should never have become involved in this issue. Departments are making a great fuss over an easily resolvable question.

The Government's objective is to obtain the best price for the disposal of Wytch Farm. As neither the Government nor BGC have a legal obligation to sell to the Dorset Group, the new offer by RTZ/Charterhouse should be considered on its merits. The Dorset Group should be given an opportunity to produce a revised offer.

There is no need to reopen the bidding to others, nor should Wytch Farm be transferred to Enterprise Oil. Transfer is unlikely to raise more money, but will delay the sale of both Wytch Farm and Enterprise Oil.

Our approach can be justified as the Government has previously recognised that the Dorset Group and RTZ were the only two serious bidders. The original unsatisfactory bids were renegotiated without submitting the offer to a new round of tenders.

We do not consider that the Government can be accused of bad faith in its dealings with the Dorset Group. Failure to complete a deal is a normal commercial risk. There are also three additional factors which should be borne in mind:

- The Budget has significantly changed the valuation of Wytch Farm.

- The Department of Energy consider that the Dorset Group's post-Budget revision does not reflect the improved asset value. This in itself would be a reason for seeking alternative bids, even if RTZ had not come forward.

- BP have always had a pre-emptive right to match any terms agreed with a third party. The Dorset Group have therefore always been faced with the possibility of losing the contract at the last minute.

Conclusion

We consider that the Government has a clear and defensible position. In order to resolve this issue quickly, we recommend that both the Dorset Group and RTZ/Charterhouse should be given 30 days in which to produce final bids.

If there is any chance that a third bidder would be interested - which we doubt - he should be given an equal opportunity to bid within the same tight timetable.

The best offer should then be selected, and the disposal effected without delay.

DLP.

DAVID PASCALL

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

7 April 1984

Dear Andrew

WYTCH FARM

In preparation for the meeting which he and the Chancellor of the Exchequer are having with the Prime Minister on Monday, my Secretary of State has asked me to send you the attached note.

Copies go to David Peretz in the Chancellor's Office, and Sir Robert Armstrong.

Yours sincerely

Michael Reidy

M F REIDY
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

WYTCH FARM

Background

1. In October 1981, the then SOS for Energy directed the Corporation to dispose of its interest in Wytch Farm under section 7(2) of the Gas Act 1972. The tender document was put out by BGC in July 1982. It made clear that (i) BGC reserved the right not to accept any of the tenders and (ii) BP had a pre-emption right to acquire the interest by matching any term agreed by BGC and a third party. It attracted three bidders only, the two principal ones being the Dorset Bidding Group and an RTZ/Charterhouse consortium. No bids were sufficiently attractive in original form for the sale to proceed. After discussions between the bidders and the Secretary of State the Dorset Bidding Group improved its offer and in March 1983 Mr Lawson instructed BGC to proceed with the negotiations with a view to finalising the sale.

2. The Dorset Group offer consisted of an initial payment of £80m, a second payment of £80m either when production reached 20,000 barrels per day or after five years, and a 40% net production interest in all production after expenses. Sale documentation was finally agreed and put to the BGC Board in March 1984. In the event BGC delayed a decision beyond the budget. In a budget day adjournment debate on Wytch Farm, the Minister of State for Energy said that consideration of the Wytch Farm deal would take account of any impact from the budget changes. Shortly afterwards BGC wrote to the Dorset Group saying that in the light of the budget the bid was inadequate and should be improved. Following informal discussions with the Department of Energy, Dorset offered to increase the second payment by £20m. On any calculation we or BGC have been able to make on a wide range of assumptions this increase falls well short of the improvement in the value of the asset brought about by the budget.

3. On 29 March RTZ/Charterhouse, the other principal original bidder, wrote to BGC indicating that they were contemplating offering an initial payment of £110m, a second payment of £80m and the same net production interest arrangements as in the Dorset bid. They also indicated that they were prepared to adopt the substance of the purchase and contractual arrangements in the DBG/BGC documentation. Legal advice confirms that there is no legal obligation to sell to Dorset.

The Options

4. (i) to press ahead with the sale to Dorset on present or improved terms;

(ii) to request BGC to open negotiations with RTZ;

(iii) to re-open the sale to a new round of tenders;

(iv) to seek ways of transferring Wytch Farm to Enterprise Oil consistent with the Enterprise flotation in June.

Commentary

5. Sell to Dorset. The negotiations have been protracted and the Dorset Group have foregone other investment prospects in the expectation of success on Wytch Farm as well as incurring direct expenses. It could be argued that there is a moral, but not legal, obligation to complete the sale to them. But sale to Dorset on their latest offer could not be defended as providing the best return to the nation.

6. Negotiate with RTZ/Charterhouse. Their approach is an offer to negotiate, not a bid. If finalised speedily it is worth some £15m to £20m more than the Dorset bid but is not particularly attractive and would be eroded by any delay. But this negotiation with RTZ could not be a final step. It would have to lead either to an invitation to Dorset to match or exceed their bid; and/or to a full retender process.

7. If Dorset matched the RTZ bid the question remains as to whether Government could accept that bid. Once a process of auction had begun it would be difficult not to test the market fully.

8. Re-open the Tender Process. If this route is followed I could not realistically allow BGC to control the process, given the history. I would therefore issue a new statutory direction to take the asset into my possession. This would probably mean a delay of at least 6 months, but the Government would have greater certainty of completing the sale at the end of this period.

9. Transfer of Wytch Farm to Enterprise Oil. The procedure would be that the Government would provide Enterprise Oil with the funds to purchase Wytch Farm from BGC at a price slightly above the RTZ offer. This price would be intended to be sufficiently high for BGC to agree to sell and for BP to agree (as they have hitherto) not to exercise their pre-emption rights. The proceeds received by BGC would by agreement already made be placed on deposit with the Exchequer at no interest and would later accrue to the Exchequer. The Exchequer would get the full proceeds of sale at the flotation stage.

10. It would be essential to get merchant bank advice on the increase in the proceeds from the flotation to be expected from the inclusion of Wytch Farm. This advice would need to confirm that the increased value of Enterprise would definitely exceed the bids made by Dorset and RTZ.

11. It would also be essential to obtain urgent advice from those preparing the prospectus on whether the revised flotation could be achieved within the timetable. Enterprise is scheduled for flotation by the end of June and there would be great delay and loss to the Exchequer if this were not achieved.

12. While it is likely that the BGC Board would accept the sale to Enterprise Oil on these terms if the Government accepted responsibility, full co-operation would also be needed from them to achieve the objective.

13. The real problem is that Dorset will feel strongly aggrieved at any course which does not give them the asset at the price they have now bid. At a rough guess they may already have incurred up to £2 million in legal and professional expenses, and also will have foregone alternative investment opportunities. Officials have suggested that some form of ex-gratia payment in respect of their expenses might be feasible in strict theory. However in practice it would be very difficult indeed to justify to the House of Commons a payment to a group of oil companies for whom failure to complete deals is a normal commercial risk.

14. Were a transfer to Enterprise to be pursued, the key requirement would be urgent consultation with professional advisers to assess the viability of this course of action within the planned timsecale.

SECRETARY OF STATE FOR ENERGY
7 April 1984

Econ Pol: Privatisation Pt 9.

CONFIDENTIAL

Policy Unit
6 April 1984

MR TURNBULL

c Mr Redwood

AIRPORTS POLICY
MOVEMENTS AT HEATHROW - AND PRIVATISATION

The two issues which E(DL) will take on 10 April are closely related. Heathrow handles some 45% of all UK air passenger movements and 75% of UK air freight tonnage. Any ceiling imposed on Heathrow's capacity has direct effects on other airports.

Only Government can prescribe environmental, safety and competition rules. For as far ahead as the eye can see, and regardless of airport ownership, Government will not be able to detach itself from its inherited regulatory role. Mr Ridley's two papers recognise that fully.

1. Air traffic movements (ATMs)at Heathrow

There is no room for manoeuvre here. The promise made in 1979 of a limit of 275,000 ATMs per year was unequivocal, and it did take account of the quieter aircraft which must come into service by 1985/6. Mr Ridley also accepts that the limit will not undermine the viability of Terminal 4. He has no option but to seek powers to enforce a limit. He is also right to believe that half-hearted powers will not work; and therefore to seek the extensive powers proposed in his paragraph 7.

We fully support Mr Ridley's recommendation to E(DL).

2. Airports Privatisation

We ought to say this quietly to Nick Ridley

On this topic, Mr Ridley's paper is much less satisfactory. It is conspicuously short of fact and leaves large questions unasked. In an Annex we have set out some essential facts. These give rise to six main questions below. In the absence of any need to rush decisions, we urge the Prime Minister to resist accepting even preliminary conclusions until Department of Transport answers the questions.

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In two respects we fully support Mr Ridley:

We agree with his proposal to take powers requiring local authorities to turn airports above a certain size into PLCs. Financial transparency is important. But the minimum size would be better expressed in non-financial terms and should be set lower - say at 100,000 passenger movements per annum.

We agree that the CAA should be instructed to dispose of its seven small Scottish airports.

We do not agree with the muddled thinking which besets his other tentative proposals. in particular paras 8-11

It is true that the operation of BAA's airports is already heavily franchised out and that large airports constitute local monopolies. It follows that there is not much further scope for competition or private sector disciplines. But neither would these virtues be eroded if BAA were privatised - because of the extensive safeguards in the regulatory role which Government has to keep. Mr Ridley's paper overlooks completely the value to the Exchequer of privatising BAA. In March 1983, its net asset value was nearly £1 billion.

Question 1: What is E(DL)'s view of the Exchequer benefit of privatising BAA?

Although it is not proven that the privatisation of BAA as a whole is economically disadvantageous, it may be politically difficult. So:

Question 2: Why not bring forward proposals to counter the dominance of a private sector Heathrow in the South-East? A grouping of Gatwick, Stansted and eventually Luton could be useful, especially as movements at Heathrow are to be limited.

Question 3: Why not prepare plans now for the serious over-capacity problem at Prestwick/Glasgow/Edinburgh?

Question 4 : What more can be done to bring the marginal or unprofitable local authority airports into the black?

What can we learn from the 13 municipal airports which are operated by the private sector? Can more be done to encourage the development of airport land? Some airports derive an income from an adjoining industrial estate.

Question 5 : What plans should be prepared for Liverpool?

It is far and away the worst of the local authority airports in commercial terms, with losses nearly as great as its turnover.

Question 6 : Do the privately-owned and company-owned airfields pay their way and if so what can we learn from them?

This is a liberalising, deregulating, non-subsidising Government which is properly disposed to the view that commercial activity belongs to the private sector unless there are compelling reasons to the contrary. Why should airports be different?

R.J.

ROBERT YOUNG

ANNEX

AIRPORTS OWNERSHIP

The British Airports Authority (BAA) owns seven airports - three in South-East England (Heathrow, Gatwick and Stansted) and four in Scotland (Glasgow, Edinburgh, Prestwick and Aberdeen).

The Civil Aviation Authority (CAA) owns seven small Scottish airports - an accident of history.

Local Authorities own 50 airports, ranging from the "semi-international" (Manchester, Luton, Birmingham), to the very small (eg Haverford West, Dornoch, Sunderland). Interestingly, 13 of the 50 are municipally owned but privately operated.

In addition, there are 39 MOD airfields and 9 British Aerospace airfields available to civil traffic. And there are no fewer than 149 privately owned and operated airfields and airstrips.

AIRPORT CAPACITY

There is not only no shortage of airport capacity in the UK - there is a huge surplus. Even the apparent shortage of capacity at Heathrow is an artificial phenomenon derived from the Government's 1979 promise to limit movements there. Physical capacity has not yet been reached, and Terminal 4 will increase it.

In two areas, over-capacity at large airports is already acute, and will have to be tackled irrespective of ownership. The first is in the North-West, where Manchester airport is a huge success and Liverpool a disaster (both are local authority owned). The second is Southern Scotland, which cannot support major airports at Prestwick and Glasgow and Edinburgh (these are all owned by BAA).

The South-East may become such a problem. Heathrow, Gatwick and Luton all attract more than enough traffic to cover their costs, but Stansted does not. Much will depend on the effect of limiting ATMs at Heathrow, and on the outcome of the enquiry concerning Stansted.

AIRPORT PROFITABILITY

The profitability of airports is highly variable.

Within BAA, Heathrow is hugely profitable (£46 million gross on turnover of £191 million). Gatwick makes a modest profit, and Stansted loses £4 million on its turnover of £2.3 million (!). Glasgow and Aberdeen earn profits, Edinburgh loses, and Prestwick loses heavily.

Among the local authority airports, seven of the nine largest are profitable, but there are anomalies. Bristol, for instance, makes a profit on 261,000 passengers per year, yet Liverpool loses £2.6 million on 251,000. Teeside loses nearly £300,000 on roughly the same numbers.

We have no knowledge of the profitability or otherwise of the very small private airfields.

What we can say is that profitability is not related to type of ownership, nor directly to size. However, what emerges from the BAA accounts is that airport profitability derives exclusively from non-traffic activity. BAA lost nearly £25 million on traffic income of £153 million in 1982/3, but made £63 million on £131 million of income from commercial concessions, rents and services. It is entirely valid to regard airport management as property and retail management at least as much as air traffic management.

R.J.

cc B/P File

10 DOWNING STREET

Prime Minister (1)

Agree I shan be Policy Unit role to be Chancellor as Chairman of E(DL)?

AT 6/4

Yes - but

I really think that the Policy Unit should have a word with Nick Ridley's office first. Otherwise he is bound to feel resentful if these points are made without notice.

MT

SECRET

file

SUBJECT
cc MASTER

bc: David Pascall

JJ/
DA

10 DOWNING STREET

From the Private Secretary

6 April 1984

Dear Michael,

Wytch Farm

Your Secretary of State came to see the Prime Minister today to explain certain difficulties which had arisen over the disposal of the Wytch Farm assets by BGC. He set out the history of the case, (which I need not repeat in this letter), pointing out that BGC had been directed to negotiate with DBG rather than to settle at a certain price. Sir Robert Armstrong added that the direction to BGC was to dispose of Wytch Farm at the best price. This was no longer represented by the DBG bid, and in consequence the direction may no longer have force. In discussion, it was noted that BGC had no legal obligation to sell to DBG; their commitment was to negotiate with it. The Government had no legal obligation either to DBG.

Your Secretary of State said there was no easy solution. If DBG were not to secure the contract, there could be accusations of bad faith on the part of the Government. The group had spent possibly £2 million on legal fees, and had foregone alternative investment opportunities. It would, however, be very difficult for the Government to defend an offer of compensation to the Group. It would also be difficult to direct BGC to accept the bid from DBG now that a higher bid had been made, as the existence of this bid would inevitably become known. Asking RTZ to withdraw was not a solution, as this would not prevent the existence of the bid being known.

Your Secretary of State thought it unlikely that a joint bid could be arranged as it would be difficult to persuade DBG to share the contract with the loser in the original bid. There were difficulties too in asking DBG to bid again as this raised the question of whether the bidding should be completely opened up. An alternative approach would be to transfer the assets from BGC and sell them as part of Enterprise Oil. This would ensure that a fair market price was secured but would still leave the problem of bad faith in relation to DBG.

The Prime Minister recognised that it was difficult to find a solution which reconciled the need to avoid accusations of bad faith on the part of the Government and the need to be seen to be obtaining the best deal for the taxpayer. She asked Sir Robert

/ Armstrong

SECRET

Armstrong to discuss the matter with Sir Kenneth Couzens and Sir Peter Middleton and to prepare a note setting out the courses of action and the difficulties associated with each. A meeting has been arranged for the Prime Minister to discuss this with the Chancellor and your Secretary of State on Monday afternoon.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 7214

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

5 April 1984

Dear Andrew

WYTCH FARM

In preparation for his meeting with the Prime Minister tomorrow my Secretary of State has asked me to forward, for the Prime Minister's personal use, the attached folder of key papers. I am sending an identical folder to Sir Robert Armstrong.

Yours sincerely

Michael Reidy

M F REIDY
Private Secretary

G 120/03/2

CONFIDENTIAL

1. Mr Campbell 30.3.
2. PUS
3. Minister of State
4. Secretary of State

KEC 30/3

cc Mr Guinness
Mr Claydon
Mr Wilson
Mr Long
Mr Dart

WYTCH FARM: LEGAL POSITION

1. The Secretary of State asked for a folder of the most important documents relating to the conduct of the sale, and advice on the legal position in respect of the Dorset Group. These are attached; the key sections in the documents have been highlighted for ease of reference.

2. It may be helpful to summarise the position briefly:

(i) In July 1982, BGC put their interest in PL 089 out to tender. The offer for sale document made clear (para 13)* (a) that BGC reserved the right not to accept any offer, and (b) that the decision to accept an offer would only be made when a sale and purchase agreement had been negotiated.

*Flag O

(ii) Bidding closed in October 1982. BGC concluded that none of the offers received was acceptable. Mr Lawson then met the bidders to explore the scope for improvements*; at no stage did he say what level of bid would be acceptable, or give any commitments. The Dorset and RTZ/Charterhouse Groups both put revised offers to BGC. They concluded that neither was acceptable, and asked Mr Lawson for guidance (Sir D Rooke's letter of 10 March 1983*)

*Flag N

*Flag M

(iii) Mr Lawson concluded that BGC's analysis was flawed, and told the BGC Board on 30 March* that it would be commercially justifiable and in the national interest for BGC to finalise a sale to Dorset. In subsequent exchanges of correspondence* between 31 March and 11 April, BGC undertook to open negotiations with Dorset. Government's decision announced on 25 April 1983*

*Flag L

*Flags K-H

*Flag G

(iv) In November 1983 a problem about the risks associated with planning permission arose. The Secretary of State offered his services to bring about a settlement, and in his letter of 2 November* asked BGC to conclude the negotiations.

*Flag F

CONFIDENTIAL

Flag E (v) BGC agreed, but Sir Denis Rooke's letter of 7 November made clear their view that the legal responsibility for the sale was theirs alone, and they would require further instruction before selling to Dorset. This is reinforced in Sir Denis Rooke's letter of 24 November* which makes clear that BGC undertook only to open negotiations following the 30 March 1983 meeting with Mr Lawson, not to conclude the sale. Sir Denis Rooke's latest letter of 26 March 1984* requests an instruction to conclude the sale to Dorset; it pre-dates the latest RTZ/Charterhouse offer.

*Flag C

*Flag A

3. Our legal advisers have therefore concluded that:

(a) BGC have no legal obligation to sell to DBG;

(b) The Government has no legal obligation to DBG;

(c) There is no legal obligation on BGC to comply with the Direction by accepting the Dorset bid now that there is a possibility of a better price from RTZ/Charterhouse.

J G WRIGHT
Gas 1
Rm 735
Ext 7163

30 March 1984

CONFIDENTIAL

Note by Legal Division on relationships of the Secretary of State, the British Gas Corporation (BGC) and the Dorset Bidding Group (DBG) in respect of the disposal of production licence PL089 (Wytch Farm) in the light of the RTZ/Charterhouse offer.

1. It is quite clear that BGC has no binding obligation to DBG to dispose of Wytch Farm to DBG on the terms of the negotiated documents or on any other terms until a contract to do so is concluded between BGC and DBG. The tender document states that BGC was not obliged to accept any offer made pursuant to it; in fact DBG's original offer was rejected. The subsequent offer did no more than open the way to the negotiations which have produced the documents which only create legal obligations if they are completed.

See Flag O

2. It is also clear that, so long as the Direction which came into force on 13th October 1981 is continued in force, BGC have a duty to dispose of Wytch Farm at the best price that can reasonably be obtained consistently with their obligation to complete the disposal with all convenient speed. Before the Charterhouse offer appeared it was accepted by ourselves and, it is understood, by BGC that there was no real prospect of a better offer than that made by DBG. We therefore considered that, unless the Direction was revoked, BGC had no option but to conclude the negotiations with DBG; that being the only way in which BGC could comply with the Direction.

3. In the circumstances obtaining before the Charterhouse offer appeared, we considered whether the Secretary of State could have incurred any legal obligations to DBG. It seemed that the only possibility was if the Secretary of State had induced DBG to pursue the negotiations with BGC on the understanding that the Secretary of State would not allow BGC to discontinue the negotiations by revoking the Direction which alone compelled BGC to continue them. There is no evidence to suggest that such an arrangement was ever made. Consequently there would be no legal inhibition on the Secretary of State revoking the Direction if even though there was no real prospect of a better bid, the DBG offer was nevertheless unacceptable to the Government.

4. The Charterhouse offer at first sight seems to be a substantial improvement on the DBG offer. It therefore presents the real prospect of a better bid which has hitherto been absent and in our view fundamentally alters the legal situation.

5. In the first place it is no longer possible to maintain that the only way of complying with the Direction is for BGC to conclude negotiations with DBG. It would be quite consistent with the Direction for BGC to negotiate a disposal to Charterhouse on the better terms, at least if this could be accomplished within a reasonable time. But we would expect BGC to argue that their members' fiduciary duty to the Corporation required them to seek the best possible deal.

6. Secondly, the question of revocation of the Direction would not arise unless both the RTZ/Charterhouse and DBG offers turned out to be unacceptable and there was still no real prospect of a better offer from anyone else.

7. Finally, it raises the question as to whether circumstances have changed to the extent that even better offers might be forthcoming and so whether the Direction could properly be complied with without first re-testing the market.

D.R.M. Long.
30th March, 1984.

Flag A - Sir Denis Rooke's letter of 26 March 1984

B - " " " " " 27 January 1984 to PUS

C - " " " " " 24 November 1983

D - Secretary of State's letter of 17 November 1983

E - Sir Denis Rooke's letter of 7 November 1983

F - Secretary of State's letter of 2 November 1983

G - PQ (answered by John Moore, PUSS) 25 April 83

H - Sir Denis Rooke's letter of 11 April 1983

I - Previous SOS' letter of 11 April 1983

J - Sir Denis Rooke's letter of 31 March 1983

K - Previous SOS' letter of 30 March 1983

L - Note of previous SOS' meeting with BGC Board - 30 March 1983

M - Sir Denis Rooke's letter of 10 March 1983

N - Note of previous SOS' meeting with DBG - 17 Jan. 83

O - Extract from tender document July 1982

BRITISH GAS

Sir Denis Rooke CBE FRS FENG
Chairman

A

DER/BH

26th March, 1984.

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Peter,

WYTCH FARM

You will be aware that in March, 1983, having assessed the results of detailed analyses of the final bids received from RTZ and from the Dorset Bidding Group and taken external advice on valuation, the Board advised your predecessor that in its opinion neither bid represented a satisfactory offer for the Corporation's interest in PL089. The Board made clear that they were ready to give effect to the existing Direction but asked whether the Secretary of State, on wider policy grounds, wished to direct the Board to dispose of the assets on the basis of either of those offers or to consider other means of disposal.

In a letter dated 30th March, 1983, Mr. Lawson stated explicitly that the Government had decided that it would be both in the national interest and commercially justifiable for the Corporation to accept the Dorset Group's bid. In a further exchange of correspondence Mr. Lawson confirmed his instruction that the Board should proceed with negotiations with that Group, notwithstanding the view of the Board that the offer was commercially unacceptable.

Since that time the Corporation's representatives and advisers have worked hard to bring inevitably complex negotiations to a conclusion. A feature, which from the outset, especially concerned the Corporation has been the uncertainties attending the ultimate sum which the bidders can be required to pay. The main thrust of the Corporation's approach therefore has been to try to ensure certainty of receipt of the three stages of promised payment. Throughout,

/your staff ...

10/174

your staff have been kept in close touch with events and have been provided with copies of all relevant documents. They are now in possession of the three principal definitive documents that encapsulate the overall deal, viz:-

The Sale and Purchase Agreement

The Change of Operator Agreement

The new Joint Venture Operating Agreement

which the Board has considered in detail. For the sake of precision I submit formally herewith final copies of the documents.

The serious reservations which the Board expressed about the proposed deal in correspondence prior to the 30th March, 1983, have not been lessened in the course of negotiation. Indeed, in certain respects of importance, for example in regard to the planning risk, the final documents place the Sellers in a worse position than was originally understood from the offer. The Board therefore has no grounds to change its earlier opinion.

There have been tax changes announced in the Budget; a rapid analysis of these indicated that they would have a material effect on the value of the assets and the Dorset Bidding Group were therefore asked if they were prepared to increase their offer. They initially replied that they did not accept that the effect of the Budget materially improved the value of the interest. However, we understand that they have had the opportunity to discuss the situation with the Department and by letter dated 22nd March they have now said that they are prepared to add £20 million to the second stage payment, bringing that to a total of £100 million. Notwithstanding the views of the Dorset Group, the Corporation notes that the taxation changes apply also to the Corporation's valuation of the assets and have a larger effect than on the bid itself. Since the Dorset Group's response does not in our opinion reflect the full potential value of the tax changes on the assets, this latest development has made the bid even less attractive overall than before. Details of the Corporation's evaluation of the taxation effects are contained in Mr. Hogg's letter of 23rd March, 1984, addressed to Mr. Campbell.

/We entered ...

We entered into these negotiations on the explicit understanding that the Government, notwithstanding the Board's reservations, were satisfied with the bid of the Dorset Bidding Group and that it was in the national interest for it to be accepted rather than to seek other means of disposal. Now that the final documents and the increased offer are available it is important to receive confirmation that the Government's view of the national interest has not changed since this is material to the Board's consideration.

I should be grateful if you would therefore confirm in the light of all the circumstances, including the impact of recent Budget changes, that in the view of Government it is in the overriding national interest for the Corporation to complete the three Agreements including the increased offer enumerated above. The Board has unanimously agreed that subject to that confirmation arrangements should be made to execute the documents without delay.

SECRETARY OF STATE'S OFFICE	
TO MR CAMPBELL	Copies to
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 2/4/84 VIA PS/MOS.	PS/PUS MR GUINNESS MR WILSON MR CLAYDON DR WRIGHT MR DART.

Yours ever,

Peter

Hal

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman

DER/BH

27th January, 1984.

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

PERSONAL TO ADDRESSEE

Sir Kenneth Couzens, KCB,
Permanent Under Secretary of State,
Department of Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Ken,

WYTCH FARM

You know my concern to find a solution to the problem I raised in my letter to the Secretary of State dated 7th November, 1983.

I am enclosing a draft of a possible letter (or part of a letter) which might be sent by the Secretary of State to the Board when he has approved the documents.

Unless we can agree something substantially along the lines of this draft then there is certainly no point in my attempting to run this solution with the Board. And you appreciate of course that even if a draft can be agreed between us, there is no certainty that it would be acceptable to them.

The Board have been advised that such a letter would not remove their legal responsibility. Its purpose would be to show any Parliamentary committee, or the Courts, that Government has plainly accepted full responsibility and that to insist upon legal formalities would merely be delaying the inevitable.

I can of course see that there could be many difficulties for both the Board and the Secretary of State if we were to proceed in this way, but I think it is the best solution I can offer short of a new Direction which is what my Members really feel is necessary at this point in time.

Yours ever,

Denis

PERMANENT UNDER SECRETARY'S OFFICE

TO Mr. Campbell (off the file)	COPIES TO Mr. Guinness, Dr. Wright, Mr. Darton
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE, BY: ACMP	

R
A
F
T

MATERIAL PART OF A LETTER TO BE WRITTEN
BY THE SECRETARY OF STATE TO BGC

You were good enough to send the Department copies of the X agreements negotiated with the Dorset Bidding Group and these have been reviewed by the Department.

The Government has considered the terms of the proposed sale to DBG and considers that it would be in the national interest for the sale to proceed upon those terms, pursuant to the British Gas Corporation (Disposal of Wytch Farm Oilfields Interests) Direction, 1981. Accordingly I require the Board to proceed forthwith with the formalities of sale.

I can confirm that it is Government's view that it is the Board's duty under Section 7(2)(a) of the Gas Act 1972 and the above Direction to dispose of its interest in PL 089 upon the approved terms of the proposed sale to DBG. The negotiations with DBG commenced on the instructions of my predecessor as Secretary of State, given in the national interest; the proposed terms and conditions negotiated by the Board have now been approved in detail by Government, and it is Government, and not the Board, which at this final point accepts full responsibility for them and requires the Board to sign the appropriate documents bringing them into effect. [I should make it quite clear to the Board, that if it were necessary to do so, Government would take every step [exercise its legislative powers] to ensure that the proposed sale proceeds upon the approved terms.]

BRITISH GAS

DER/SH

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

24th November, 1983.

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Peter,

WYTCH FARM

Thank you for your letter of the 17th November.

I agree that the Corporation is under a duty to give effect to the direction to divest Wytch Farm, but we have been advised that the legal responsibility for the terms of sale rest entirely upon the Board, and that the Board's fulfilment of that duty could not be achieved by a sale upon terms which they regard as commercially unacceptable.

The statement in the fourth paragraph of your letter that "Government agreed that the Corporation should proceed to a negotiated agreement on the basis of Dorset's bid" will be taken by Members as contrary to their understanding of the position on a critical issue. At a personal meeting with Members, when they expressed their view that the DBG bid was commercially unacceptable, the then Secretary of State insisted that they proceed with negotiations in the national interest. The Board consented to open negotiations, but made it quite clear at the meeting that they regarded the Secretary of State's intervention in the nature of an instruction overruling their commercial judgement.

You will also be aware that two external Members thought the issue of the commercial unacceptability of the bid sufficiently important to seek a subsequent meeting with the Permanent Secretary.

/ Since it ...

The Rt. Hon. Peter Walker, MBE, MP. 24th November, 1983.

Since it is apparent that a difference of view exists, I am glad that I have raised this point with you at this juncture, as we shall have an opportunity to explore the position fully, and I have no doubt agree the right course of action.

I regret that we cannot reach any immediate solution and I shall take further advice. As you will appreciate, the Board regard this as a matter of paramount importance and I shall write to you again soon.

Yours ever,

Jim

CC PS/MOS
PS/PUSS (Lords)
PS/PUSS (Commons)
PS/PUS
Mr Guness
Mr Campbell
Mr Gaydon
Mr Wiggins
Mr Dart
Mr Wright
(on file)

01 211 6402

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

17 November 1983

WYTCH FARM

Thank you for your letter of 7 November confirming that you will negotiate in accordance with the request contained in my letter of 2 November, for which I am grateful.

I fully accept that this request does not itself impose any legal obligation on the Corporation. However my understanding of the wider legal position differs from that set out in your letter.

I am advised that since the British Gas Corporation (Disposal of Wytch Farm Oilfield Interests) Direction 1981 was brought into force on 13 October 1981 the Corporation have had a duty under section 7(2) of the Gas Act 1972 to give effect to it.

As you know the Government agreed that the Corporation should proceed to a negotiated agreement on the basis of Dorset's bid. There is no doubt that this bid was the most attractive to result from an offer of open tender. Of course the final outcome may have moved some way from the bid but the effect of any changes is not a matter on which any final conclusions can be reached until negotiations are complete. At that stage I and my colleagues will wish to look at the package as a whole.

If at that stage we are of the opinion that the deal is sufficiently attractive to allow the Corporation to meet its duty, it would follow that we would see the Corporation's conclusions of the deal on those terms as fulfilment of the existing direction. In that situation defence of the sale would in practice lie to Ministers not the Corporation. On the other hand a decision by the Corporation not to proceed with the deal would leave it having failed to discharge its statutory obligation to give effect to the direction.

You will appreciate from this that I see no reason for any supplementary direction either under section 7(2) of the 1972 Act or under the wider powers conferred by section 11(1) of the Oil and Gas (Enterprise) Act 1982, nor do I think that any question of new legislation arises.

As to your point concerning unequivocal acceptance of responsibility by the Government, it remains the case that they are and will be solely responsible for the giving of the direction and for its continuation in force, notwithstanding that the only practicable way in which it could be complied with was by the Corporation disposing of its interests to the Dorset Group on the terms which had eventually been negotiated.

Yours ever

PETER WALKER

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/BH

7th November, 1983.

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

SECRETARY OF STATE FOR ENERGY'S OFFICE
RECEIVED
8 NOV 1983

Dear Peter,

WYTCH FARM

Thank you for your letter dated the 2nd November, 1983, in which you say that bearing in mind your predecessor's decision that the Corporation should commence negotiations with DBG, you have decided to ask the Corporation to accept on your behalf the risks that the relevant local or central Government authorities may refuse or delay either development consents or planning permissions.

I can confirm that we shall negotiate in accordance with your instructions, but at the same time I can foresee an eventual problem which I should mention to you.

The proposed agreement is now, at your requirement, moving further away from the Board's understanding of the original bid, which in any event they regarded as commercially unacceptable. The Corporation will be conceding points in the negotiations which they would not have conceded had they been able to exercise their own judgement.

I do not want to prejudge what the Board may do when presented with the fully negotiated document, but I am bound to say that on the information I have, it is very unlikely that they will view it as commercially acceptable. In such circumstances, the Board could only sign the document if responsibility were to be unequivocally accepted by Government.

/The Corporation ...

SECRETARY OF STATE'S OFFICE

TO Mr. Dart	Copies to PS/MOS
FOR ADVICE AND	PS/PUS
DRAFT FOR	Mr Guinness
APPROVAL	Mr Campbell
PLEASE BY: 15/11/83	Dr Wright
VIA	

cc Mr Clayden
Mr Long

The Corporation has always recognised the interest of Government as effectively the principal, and has thus sought to give as much weight as possible to the views of the Secretary of State. However, the Corporation's advisers have warned that the Secretary of State is not empowered, in the legal sense, to intervene in the negotiations, nor to make any request or give an instruction short of a supplementary direction under the Gas Act, 1972, or the imposition of new legislation. The legal responsibility for the terms of sale, I am advised, rest squarely on the Board.

The difficulty is how the legal responsibility of the Board can be assumed by Government. If the Government were prepared to give a supplementary direction under Section 7(2) of the Gas Act, 1972, I can tell you that the Corporation would not raise any legal objection. This would be the simplest course, and could hardly raise any political issues in view of the original direction. Your advisers may like to consider whether this is a course which is open or whether they see difficulties in it.

The alternative of new legislation seems unduly onerous: indeed, the Corporation is not anxious to press Government to the stage of either a supplementary direction, or the enactment of new legislation if it can reasonably be avoided. We are wondering whether, in circumstances in which it is clear that the Government would so act unless the Board signs the deal, a sufficiently categorical acceptance of responsibility can be given by Government to overcome the difficulties we presently foresee. The exact nature of any document would have to be verified by our advisers, it would certainly have to be associated with clear publicity at the time that the Board was acting only in the knowledge that legislation would be forthcoming it if did not. Your advisers might wish to give some thought to the feasability of such a course of action as we intend to do.

I do not want us to get to the point where the agreement is ready for signature and it is assumed that if we receive a letter which instructs or requests us to sign the deal, that in the light of our compliance with past instructions, we will again comply and sign; a much more formal assumption of

/responsibility ...

responsibility is, I think you will agree, necessary. I hope you will accept that this is a genuine concern which we should explore now.

Yours ever,

Tony

01-211-6402

Sir Denis Rooke CBE FRS F Eng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
London
SW1V 3JL

Mr Guinness
Mr Campbell
Dr Wright
Mr Dow

2 November 1983

F

WYTCH FARM

As you know, the Dorset Group have written to me about a problem which has arisen in the detailed negotiations for the sale of the Corporation's interest in PL 089. I have also seen a copy of Bob Evans' letter of 27 October to Ken Couzens, setting out the Corporation's position.

It appears to be common ground between the Dorset Group and the Corporation that the main outstanding issue between Dorset and BGC is who should bear the risk that failure to attain, or delay in attaining, local planning permissions will prevent or hinder expansion of the field, and thus reduce its value. In considering this question on the basis of the arguments put to me by both sides, I have had regard to a number of factors.

First, it is clear to me that, barring extreme circumstances, it will be in the commercial interest of both Dorset and BP, who will of course be the operator, to make every effort to increase production well above the 20,000 bpd trigger level as soon as possible. I regard this as a major element of reassurance. In addition, Dorset have offered to back this up with a covenant covering the situation where economic circumstances might change this balance of advantage.

Second, I accept what Bob Evans says in his letter about my predecessor having evaluated the bid on the assumption that the second payment, and the NPI payments, would be received. But there has never been any question of absolute certainty. Failure to obtain adequate planning permissions is only one factor which could hinder expansion of the field. Dorset have, I understand, accepted the major reserves and reservoir risks. You accepted in your letter of 2 September to Ken Couzens that the Corporation (ultimately of course the Government, as final recipient of the proceeds), should bear the risk that Department of Energy development consents might be withheld, since this is in the control of the Government, which is the de facto seller. Dorset have applied similar reasoning to the planning permission risk. We are talking, as the Chief Executive says, about what constitutes reasonable commercial certainty, and here I note the Corporation's view that the risk in question is in fact "not a very great one"; a view we share.

, Dorset's strong reluctance to accept the planning risk is not a new development. Indeed their position had so been interpreted here even before their bid was accepted by my predecessor as a suitable basis for detailed negotiations, although I recognise that this position was not specifically spelled out in the bid. If there are inherent obstacles in obtaining the necessary planning permissions, these bear directly on the value of the field and would hence have the same consequent effect on the Corporation's interest as on Dorset's bid. We are not therefore talking about accepting any additional risks on this score. Nor have I any reasonable grounds for supposing that BP, who have considerable onshore experience, would be any less competent in handling planning applications than the Corporation.

Fourth, the Chief Executive says in his letter that "very little is to be gained by analysing the letter of the original bid". I agree that there is scope for elaboration as part of the process of detailed negotiations. But we must give weight to the shape of the original bid which led my predecessor to his decision that you should commence negotiations with the Dorset Group. The Corporation have made clear their view that Dorset's offer was a payment of £160 million in two stages; Dorset have consistently maintained that the planning risk was one which they intended to exclude from the factors triggering the second payment.

Taking into account all aspects, both of the merits and of the history of the negotiations, and against the background of a number of concessions which Dorset are making in other areas, and bearing in mind my predecessor's decision referred to above, I have decided to ask the Corporation to accept on my behalf the risks that the relevant local or central Government authorities may refuse or delay either development consents or planning permissions. Of course, the proceeds of sale are for the Government, not the Corporation, and the finances of BGC are not therefore at risk on this. I must therefore now ask the Corporation to conclude its negotiations with Dorset, as soon as possible, on the basis that these particular risks should be taken by the seller, not the buyer. It would be helpful if all outstanding issues, including the idea of a sliding scale which has been suggested to the Corporation in discussion with the Department, could be speedily resolved so that I may consider the deal in all its aspects before the final agreement is signed.

PETER WALKER

Reference .....

HOUSE OF COMMONS

Written Answers to Questions

Monday 25 April 1983

ENERGY

Wytch Farm Oilfield

41. **Mr. Edwin Wainwright** asked the Secretary of State for Energy if he will make a statement on progress to date in the disposal by the British Gas Corporation of its share of the Wytch Farm oilfield.

Mr. John Moore: My right hon. Friend met the full board of the corporation on 30 March to discuss the offers received for the corporation's 50 per cent. share in PL 089, which includes the Wytch Farm oilfield. He explained that the Government had considered carefully with their advisers the advice put to it by British Gas and had decided that it was both commercially justifiable and in the national interest for the corporation to take forward negotiations with the Dorset Group of independent British oil companies. He instructed the corporation to proceed accordingly and they undertook to do so.

CODE 18.78

G

BRITISH GAS

11 APR 1983

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/CLN

11th April 1983

Private & Confidential

The Rt. Hon. Nigel Lawson, MP,
Secretary of State for Energy,
Department of Energy,
Thames House South,
Millbank,
London SW1P 4QJ

Dear Nigel,

WYTCH FARM

Thank you for your further letter of the 11th April, and for explicitly confirming our understanding.

Yours ever,

Denis

cc PS/MCS
PS/PUSS (Commons)
Mr Gilmore
Mr Mantle
Mr Campbell
Mr Morphet
Mr L Miles
Mr Mulholland.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211-6402

cc PS/MOS
PS/PUSS (Commons)
PS/PUSS (Lords)
PS/PUS
Mr Guiness
Mr Manley
Mr Monphett
Mr Wiggins
Mr Walmsley
Mr E Price
Mr Claydon
Mr Wilson
Mr Gillis
Mr Campbell
Mr Macintyre
Dr Heathcote
Dr Rou[redacted]
Mr Dart
Lon file

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

11th April 1983

Dear Denis

Thank you for your letter of 31 March. I confirm that this correctly states the Government's position, and look forward to an early completion of the sale along the lines which I have indicated.

For the reasons I explained when I met you and your Board on 30 March, I am satisfied that acceptance of the Dorset Bidding Group's offer is commercially justifiable.

Yours
Nigel

NIGEL LAWSON

BRITISH GAS

PS/PUS
Mr Manley
Mr Campbell
Mr Morphet
Mr Clayton
Mr MacIntyre
Mr Wilson
Mr Wiggins
Mr Walmsley
Mr E. Price
Mr Ellis
Dr Heathcote
Mr Long
Mr Duff

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/JS

31st March 1983.

The Rt. Hon. Nigel Lawson, MP,
Secretary of State for Energy,
Department of Energy,
Thames House South,
Millbank,
London SW1P 4QJ.

Dear Nigel,

I am in receipt of your letter of 30th March following your meeting with the Members of the Board of the Corporation.

We had been expecting a clear written instruction and in order to avoid any possibility of future misunderstanding I should like to make it clear that the Board are taking your letter to be confirmation of the oral instruction you gave to them on 30th March, namely that in view of the Government's decision that the Dorset Bidding Group's offer was acceptable both in the national interest and commercially justifiable, the Board should proceed with negotiations with that Group, notwithstanding the Board's previous decision that all extant offers were commercially unacceptable.

I should be grateful if you would confirm the Board's understanding on this point.

Yours ever,

Denis

cc PS/MOS.
PS/PUSS (Commons)
PS/PUSS (Lords)
PS/PUS
Mr Manley
Mr Campbell
Mr Morphet
Mr Claydon
Mr Macintyre
Mr Wilson
Mr Wiggins
Mr Wolmsley
Mr E. Price
Mr Ellis
Dr Heathcote
Mr Long
Dr Rouse
Mr Dart
(on file)

01 211 6402

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

30th March 1983

Dear Denis

At my meeting with the Board of the Corporation this morning, you said that it would be helpful if I wrote formally recording the Government's views on the disposal, as explained to the Board.

As I made clear this morning, the Government has considered the Corporation's advice, as contained in your letter of 10 March, carefully and in depth with its advisers. I agree with the Corporation's recommendation that the bids from the Ashdown Oil Company and the RTZ Consortium should not be proceeded with; the former because they are structurally unsound, the latter because it is too low. I have now seen RTZ's latest letter proposing a further revision to their bid, which you passed to my officials and to which you referred this morning. It does not alter my view of the RTZ bid.

The Government has decided that it would be both in the national interest and commercially justifiable for the Corporation to accept the Dorset Group's bid. Accordingly, we agreed this morning that you would now enter into detailed negotiations on outstanding questions with the Dorset Group, with a view to an early finalisation of the sale. I explained the reasons why the Government had formed this view in detail at our meeting, and do not propose to rehearse them at length. However it might be helpful if I were to list the main factors. First, it is clear that the market has been thoroughly tested, and that the Dorset Group's revised bid is the best that the market can produce. Second, there is no good reason to believe that a postponement for, say, two to three years would improve the prospects for the sale. Our merchant bank advisers have concluded that there is nothing which would lead them to expect a re-tender after such a delay to result in a higher price. Third, for reasons which I explained in some detail at the meeting, the Government has, after the fullest consideration, taken a somewhat different view from the Corporation about a range of factors affecting the evaluation of both the licence interest and the bids. In the light of these adjustments, I am satisfied that acceptance of the Dorset Group's bid is commercially justified.

.../I

I was grateful for the assurance in your letter of 10 March, which was renewed at the meeting, that the Board are ready to give effect to the existing Direction, and I should now like the Corporation to proceed in the way I have explained. I appreciate that this will not be an easy operation, and I look forward to the Corporation's continued full co-operation in carrying it through to a successful conclusion.

Yours ever
Nigel

NIGEL LAWSON

SOS/R 67/83

NOTE OF THE SECRETARY OF STATE'S MEETING WITH THE BOARD OF THE BRITISH GAS CORPORATION ON 30 MARCH 1983

Present:

Secretary of State
PUSS (Commons)

PUS
Mr Campbell
Mr Macintyre
Mr Dart
Dr Rouse
Mr West

Lord Garmoyle)
Mr Harrison-Topham) Warburgs

Sir Denis Rooke
Mr J Smith
Mr Jewers
Mr McHugh
Mr Keating
Mr Boissier
Mr Badham
Mr Greenbury
Mr Jacomb
Sir Leslie Smith

WYTCH FARM

The Secretary of State began by saying that he was grateful to the Board for agreeing to meet him at short notice. He thought it important that the Government and Corporation understood each other's positions.

He had given careful consideration, together with his colleagues and advisers, to the arguments in Sir Denis' letter of 10 March. He agreed with the Corporation that the bids from Ashdown and the RTZ consortium should be rejected - the former because they were structurally unsound; the latter because it was too low.

Sir Denis said that, even though RTZ had set a deadline for a reply to their bid which had now expired, he had just received a personal telephone call from Sir Alastair Frame to say that the bid was still on the table and could be improved in a number of ways. He had given no undertaking to consider such improvements but would pass on the details to the Department. The Secretary of State said that he did not expect RTZ's improvements to change the position. The Corporation's own analysis showed the Dorset Group's bid to be consistently better than RTZ's and he doubted that this ranking would change. As the Corporation knew, he had sought improved bids from both valid bidders so RTZ had had their chance.

The Dorset Group had submitted the highest bid and he had therefore concluded that Wytch Farm should be sold to them. However, he thought it important to explain to the Board why he had reached that conclusion.

His first test had been the present state of the market. It was clear that the market had been thoroughly tested and that the Dorset Group's bid was the best the market could produce. Indeed, the market had been tested to destruction in the sense that two of the partners in the original consortium had withdrawn. Despite wide publicity and an open auction, no other bidder had come forward with a structurally sound offer approaching the Group's.

The second test was the likely future state of the market. He did not believe that postponing the sale for 2-3 years would be likely to produce a better price. It was possible that some of the land rights and planning permission uncertainties might be resolved during such a delay but it was equally possible that they might not be, or that the outcome might depress the price. Nor was there reason to believe that the oil price outlook would be more bullish in 2-3 years. He had consulted Warburgs on the question of delay and their advice was that there was no reason to expect a re-tender in, say, 2 years' time to result in a higher price.

Therefore the next step was to evaluate the licence. For a field in so early a stage of development as Wytch Farm, with so many uncertainties, it was not realistic to opt for the most favourable assumption on all factors as the Corporation appeared to have done in their evaluation. Sheet 1 (attached) illustrated the effect of adopting slightly more conservative assumptions on the £450m estimate which the Corporation put to the Select Committee some time ago. If the more conservative view - which was not the most pessimistic in each case - were correct for all factors, the value of the Corporation's interest might be as little as £153m.

He wished to draw particular attention to four key variables. The first was the oil price, the Corporation's assumptions for which the Department considered unrealistically high. Nor were the Department's assumptions specially designed for evaluating Wytch Farm. It would be wrong to assume that the sterling exchange rate's present offset to the fall in the dollar oil price would continue indefinitely. The sterling oil price would probably fall shortly. The effect of more realistic assumptions would emerge later, when considering the evaluation of the bids.

The second key variable was the discount rate. He did not understand the reference in Sir Denis' letter to pre-tax discount rates, a concept unlikely to be of much interest to oil companies. Nor did he believe that an oil company would evaluate oil investments on as low a rate as 5% post tax; it was inappropriate for a commercial investment with as much risk as Wytch Farm. He had noted the statement in Sir Denis' letter that Wytch Farm was a low risk investment because the proven reserves, confirmed by an independent consultant, are more than 75% of the ultimate reserves. Officials had looked into this and were unable to understand it: ERC gave proven reserves as 195 mbbls or about 55% of the Corporation's estimate of total reserves.

The third key variable was the unproven and prospective reserves. BGC's figure for "proved" reserves (ie proven and probable) was 253 mbbls. However, the first graph of Sheet 2 (attached), which was taken direct from the ERC report, showed that ERC considered the probability of this figure's being exceeded less than 20% More important, the second graph showed that ERC attached only a 10% probability to the Corporation's figure of 80 mbbls from unexplored acreage being realised. Their own figure was 36 mbbls.

Finally, on the production profile, the Corporation assumed that the unexplored acreage would add 15,000 b/d from 1991 to all cases. This was arguable since it conflicted with the Corporation's central assumption that maximum production was 45,000 b/d. In the rail cases, it had to be wrong since production from the existing field was assumed to have reached the 20,000 b/d maximum for rail handling by then. Reserves discovered in the unexplored acreage would therefore extend the life of the field, not increase its production but the effect of discounting was that extending the life added very little to the NPV.

Turning from the evaluation of the licence to that of the bids, there was a critical point on capital gains tax (CGT) which made a bid difference. The Corporation deducted their CGT liability in calculating the bids' NPV, whereas this was merely a transfer within the public sector and, from the national viewpoint, was correctly considered as an addition to the value of the bids. This made a difference of some £55-65m in the case of Dorset and £40-£50m in the case of RTZ.

There were also other factors, which made a smaller difference to the value of the bids, which he thought the Corporation had not analysed correctly. The lags between the generation and use of CT allowances had been ignored which, on a rail case at a 10% discount rate, depressed the Dorset bid by about £7m.

The Corporation had also assumed that Dorset's second payment would be received on 1 September 1986, apparently on the grounds that sustainable production took 9 months to establish. This was hard to accept, particularly since RTZ were prepared to concede 3 months. It was clearly a matter of judgement but was worth £6m in the case mentioned above.

Finally, the Corporation had included the full value of their assessment of unexplored reserves in their evaluation of the licence. He had already explained why he thought this unrealistic but, even if the valuation were accepted, it was not normal practice to attribute to them their full value. The reserves themselves were highly uncertain and their full development costs not yet incurred. The Department and Warburgs agreed that it was unrealstic to evaluate them at a 5% post tax discount rate. Given the uncertainty, 10% was probably too low. Furthermore, if the NRI were set to realise their full value, the purchaser would have no incentive to develop them. The Department had therefore excluded the unexplored acreage from its evaluation and relied instead on the judgement in the structure of the Dorset bid that the 40% share in the net profit from those reserves with significantly reduced risks was reasonable.

After correcting for the 4 analytical flaws described above, the gap in value between the licence and the bid virtually disappears, even using the Corporation's assumptions on the other factors. This was demonstrated by Sheet 3 (attached) for two median cases. However, the Corporation's oil price assumptions were too high. Sheet 4, particularly column C, and Sheet 5 (both attached) showed that more plausible assumptions made the value of the Dorset bid exceed that of the licence at a 10% discount rate.

To sum up, the evaluations made by the Department and Warburgs, using ERC base data and their own assumptions, showed a range of returns to Dorset ranging from under 10% on pessimistic (but not extreme) assumptions to about 20% on the most optimistic. As a result, and taking account of wider national policy objectives, the bid was acceptable on commercial and national grounds. The Government was

confident that this decision was justified. He hoped the Board now accepted that it had not been taken lighly, but only after the fullest consideration. He was grateful for the assurance in Sir Denis' letter that the Board were ready to give effect to the existing direction. It would not be an easy operation to carry through, and would require the Corporation's whole-hearted co-operation in taking forward and concluding negotiations with Dorset positively and expeditiously, and in helping them over any difficulties which might arise - such as tax condition which should not take too long to resolve.

Such action by the Corporation all flowed from the direction but, if the Board wished to have a further letter of instruction, he would write one. Sir Denis replied that he would like such a letter. He could not accept the Secretary of State's valuation although he was not saying it was wrong. It would have been helpful if his advisers had discussed their workings with the Corporation as it had done with them. However, if the responsibility were taken off the Corporation it would, as always, do its best to conclude a sale to Dorset. Recent accusations that it had inflated the value to obstruct a sale were unjustified and resented. The figure of £450m had come from a special exercise for the Select Committee. The Secretary of State said that he was happy to take responsibility for the sale because he was confident in its justification. The disposal of Wytch Farm had taken too long and spoiled relations between the Government and the Corporation. Although the Corporation had not previously seen all his figures, he had set out his main concerns about the Corporation's approach in his letter of 23 February. Some of his points were beyond conjecture - eg that £60m for CGT should be added to the Corporation's valuation of the Dorset bid. Mr Jewers asked if the Secretary of State was saying that the Corporation had to pay the CGT but not from the proceeds of the sale. The Secretary of State replied that since the CGT was paid to the Exchequer, it was part of those proceeds.

He then reminded the Board of Wood-Mackenzie's valuation of Wytch Farm. Mr Smith attributed their value to their assumption of a constant real oil price over the life of the field. Mr Jewers objected to discounting stage payments tied to production levels at 10%. The Secretary of State pointed out that if those payments were delayed, they would be more heavily discounted. Sir Leslie Smith expressed relief that the end of the disposal was in sight and asked when BP's position could be established. Sir Denis said that negotiations had first to be completed with Dorset. Their bid was highly conditional and the negotiations would not be easy, particularly on their tax point. The Secretary of State said that his officials would give all the help they could.

Sir Denis noted that the Board had heard the Secretary of State in silence. He was unwilling to accept that the Corporation's valuation was wrong and did not know that it would be able to accept the Secretary of State's after examination. The question was highly subjective and the Department should have discussed it with the Corporation. However, if the Government was satisfied, the Corporation would comply so long as the Board did not have to take the responsibility for doing so. The Secretary of State replied that he would have to defend the Government's decision. He was not asking the Board to jump to conclusions but hoped he and the Corporation would not fall out over the valuation. Mr Boissier asked for a summary of the Department's case. The Secretary of State said that the tables he had given the Board contained this but that if, on examination, the Board wished for more it had only to ask - he had nothing to hide.

pp J D WEST
PS/Secretary of State
Rm 1237
Ext 6402
6th April 1983

cc PS/PUSS (Commons)
PS/PUS
Mr Guinness
Mr Campbell
Mr Gillis
Mr Macintyre
Mr Dart
Dr Rouse

G 120/63/2 Mrs [illegible] copy to Lordships, Dr Heathcote + Mr Gough (Ecs) for their consideration. (I will call a meeting to discuss it)

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

2. Pl draft a minute for me to the Secy asking him to confirm the SOS does not need to make another direction to give effect to the Point.

WJT 10/3.

DER/BH

10th March, 1983.

CONFIDENTIAL

The Rt. Hon. Nigel Lawson, MP,
Secretary of State for Energy,
Department of Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

SECRETARY OF STATE'S OFFICE
TO MR MACINTYRE
FOR ACTION
DIRECT
INFORMATION
PLEASE BY:
22/3/83

PS/MOS
PS/Ass/
COMMONS
PS/Ps
MR GUINNESS
MR CAMPBELL
MR E PRICE
DR HEATHCOTE
/
all w/o attachments

Dear Nigel,

PL 089 DISPOSAL

In view of the short timescale envisaged by you for dealing with revised bids for Wytch Farm I thought it best to defer making any reply to your letter of the 23rd February until it could embrace all of the matters raised. This, hopefully, I can now do, although I regret that we have failed to meet your timescale by a few hours. That is not because of any failure to accord the highest priority to this matter, but has been dictated solely by the time taken to obtain the bids and the lengthy procedures needed to evaluate these formula bids. Even using computer models and with staff working right through the weekend, the detailed evaluations have only become available to Board Members for discussion within the last 24 hours.

I must respond to the detailed points you made on the primary basis of valuation adopted by the Corporation for determining its 'threshold' value. But before doing so I wish to point out that while the Corporation felt obliged to formulate a reasonable 'threshold' estimate using a particular set of assumptions, the bid analyses were nevertheless carried out under many differing assumptions, and the influence of those changed assumptions on our valuation was also determined. All of this detailed data was passed to your officials as it became available and was in their hands when I wrote to you on the 21st December, 1982, giving a general overview of the position. We did

/not employ ...

not employ our 'threshold' value as a simple 'no-go' test; we judged the position more broadly on the difference between the bid analysis and the corresponding estimate of field value across the whole range of differing assumptions. The Corporation's judgement within that framework was that all of the bids fell substantially short of a satisfactory offer to purchase the Corporation's interest and we could not therefore recommend them to you.

Referring now to the four detailed criticisms in your letter we would observe that:-

(i) Although the ERC Report was completed nearly a year ago no different view of its technical conclusions has emerged in the meantime, particularly with regard to the level of proven reserves which constituted the overwhelming part of the valuation which we developed. You make especial mention of oil price; while that has moved significantly downwards in the meantime it has been slightly more than compensated by opposing movements in the dollar/pound exchange rate. Additionally, most forecasts are that oil prices will regain their former upward momentum and with the current status of the field, oil price movements over the next, say, 2 years are not very significant. During that period ongoing development of the field will take place and in the interim the present relatively low level of output from the field will have to be sustained.

(ii) On the question of the product transportation route we still consider that the building of a pipeline is both practicable and essential to the proper development of the field reserves. Our comprehensive experience in laying pipelines throughout Southern England over many years does not lead us to anticipate undue difficulty in constructing a suitable pipeline which in any case could have a number of alternative destinations. Although, as you say, BP had earlier expressed reservations about pipeline construction this was more in relation to timing factors than to overall feasibility and we have recently agreed with them a plan involving a period of transportation by rail at 20,000 BOPD production capacity (for about 5 years) followed by transportation by pipeline constructed in that period. This only reduces marginally the field valuation as can be seen by the detailed analyses of the new bids.

/(iii) ...

(iii) We accept that there must fundamentally be uncertainty about the level of unproven reserves but our valuation of these at £167M has been derived from statistical analysis, studying each of the prospective structures in turn. It has been derived on a fully risked basis and is calculated to represent the statistical expected value of these reserves. However, the overall figure of £350M included only about £30M for the unproven reserves. It could thus be considered to be conservative.

(iv) The 5% discount rate which we employed is on a post-tax basis and thus equates approximately to the pre-tax 10% Test Discount Rate which the Corporation normally uses in appraising new capital projects. In our view this still represents a reasonable rate of return on a project which is land based and in which the proven reserves, confirmed by an independent consultant, are more than 75% of the ultimate reserves. In our judgement and knowledge this fits reasonably in the context of pre-tax discount rates used by other Operators in the assessment of riskier offshore projects.

We are conscious that the use of a higher discount rate has a significant effect on the calculated value of the field. For instance, discounting at 10% instead of 5% reduces the value by about one-third. However, because all the bids comprise a relatively small initial payment and a stream of annual payments extending over the life of the field, the use of a higher discount rate not only reduces the value which the Corporation places on the field but also reduces the bids correspondingly. The comparison between the Corporation's value and the bids received is therefore little changed by the use of a higher discount rate. Comprehensive assessments have been made at various stages of the evaluation process and the information provided to your officials has fully set out the comparisons - which show that, on any basis, the bids fall significantly short of the valuation.

Taken overall the figure of £350M, therefore, did not represent an assessment based upon a series of highly optimistic assumptions. We purposely framed it so that the value of the proven reserves was dominant and used assumptions in reaching the discounted valuation that were not in our minds extreme.

/I now ...

I now turn to the new bids which you asked us to obtain following your meetings with the two consortia.

Although you broadly agreed with the Corporation's earlier view about the uncertainties surrounding the bid which had been received from Ashdown Oil Company, we felt in the circumstances of a third effective stage of bidding that it would be unwise to exclude Ashdown entirely. You will recall that earlier doubts about the bid surrounded the equity strength of the Company and its sources of finance. Therefore, simultaneously with seeking new bids from the consortia we instructed Lazards to enquire of Ashdown whether any further information was available on either of those two aspects. The only information we have received is contained in a letter dated the 8th March, 1983, of which I enclose a copy for your information. The Board discussed this at its special meeting yesterday and concluded that this letter itself provided no basis for a change to its earlier conclusions. I would, however, draw your attention to the final paragraph of that letter; if new firm information becomes available I shall of course inform you immediately.

Two new bids were received from the RTZ Consortium and from the Dorset Bidding Group on 28th February, 1983. Copies have already been given to your officials but I enclose further copies for your ready reference. I draw your attention to the changed composition of the Dorset Bidding Group from which LASMO and Ultramar have withdrawn. We have been advised that these two companies felt unable to sustain a substantial increase in the Group bid which they say had been indicated as necessary during discussions with the Department. This withdrawal has reduced materially the financial strength of the Group but, in the view of our advisers, Lazards, not sufficiently to justify rejection of this bid.

The RTZ bid has changed little since the second stage of bidding. The Dorset Bidding Group have improved their offer somewhat, principally through restructuring the initial cash sums which now reach a total of £160M, in two stages. However, repayments of these capital sums are treated as an expense to be deducted from future revenues before the seller is able to receive the full benefit of the net revenue interest. This consequently reduces the apparent value of the improvement by delaying the receipt of the stream of net revenue interest.

I am enclosing copies of the full assessments that have been made of the bids, presented in both tabular and graphical format. They have been produced on exactly the same pre and post-tax basis as the valuations of the previous bids, which were given to your officials and discussed in detail with Warburgs. From these assessments you will see that on any of

/the assumptions ...

the assumptions of oil price, discount rate, and product transportation route, there is a very significant shortfall between the net present value of each bid and the value of the asset calculated on the same basis.

In each case the value of the best bid, which is consistently that from the Dorset Bidding Group, is approximately half the asset valuation developed on that same basis. I should perhaps draw attention particularly to histograms J, K and L from which unproven reserves have been eliminated and which therefore relate only to proven reserves. Here again the same shortfall is exhibited.

I must also underline the time limitation now evident in the new RTZ bid; Lazards have only been able to obtain an extension to the validity of the bid until the 14th March and in any event the bid envisages a sale and purchase agreement being completed by the 31st March, which we would consider quite impracticable.

There is a further difficult matter affecting taxation. In the case of both the RTZ and Dorset Bidding Group the bids include conditions to the effect that the Oil Taxation Office has to agree that the Royalty and Net Revenue Interest payments respectively are to be treated as a trading expense. In neither case has such assurance from the OTO been received; it would appear that the assurances needed by the Dorset Bidding Group could be somewhat more difficult to obtain.

The Board discussed all these matters at its special meeting yesterday and concluded that the improvement in the two consortia bids was insufficient to justify a change in its previous conclusion and that neither yet represented a satisfactory offer for the Corporation's interest in PL 089. The general view was that this was not an opportune time at which to attempt to sell oil assets and that there could be a case for deferring the sale until market conditions are more propitious.

The Board are ready to give effect to the existing Direction but as they cannot recommend either of the offers on commercial grounds they would ask you whether, on wider considerations of policy, you wish to direct the Board to dispose of the assets on the basis of either of the current offers. Alternatively you may wish us to consider other means of disposal.

Yours ever,

Peter

SOS/R 2/83

NOTE OF THE SECRETARY OF STATE'S MEETING WITH THE DORSET GROUP ON 17 JANUARY 1983

Present:

Secretary of State
PUSS (Commons)
Mr Macintyre
Mr West

Mr G Hearne, Tricentrol
Dr C Phipps, Clyde Petroleum
Mr J Owers, Ultramar

WYTCH FARM

The Secretary of State said that none of the bids for Wytch Farm were acceptable on the basis of the Department's own evaluation of them, not just compared to BGC's valuation. Since the Government was not a forced seller, the disposal need not take place. However, since a great deal of work had already been done, it seemed sensible to give the bidders an opportunity to think again. An acceptable bid would require a substantial increase, particularly in the initial cash payment, over the present bids.

Dr Phipps said that the Secretary of State's position was not unexpected. He asked how Dorset's bid had been valued and what value the Secretary of State was looking for. Their own calculations, on identical assumptions to BGC's and ERC's and with a 5 per cent real discount rate, gave NPVs ranging from £199m to £332m. Was this satisfactory? There were two problems about increasing the bid: first the tax inefficiency of initial cash payments; and second the uncertainties about planning permission. Mr Hearne said that it would be useful if the group could elucidate their bid in detail with the Department and its advisers.

Mr Macintyre confirmed that Dorset's bid had been assessed in the same way as the group had done their calculations, and also on other bases. The Secretary of State added that he was not satisfied that the NPVs were as high as Dr Phipps had said. However, if they were of that order and if the initial payment was sufficiently large, such a bid would merit serious consideration. At present, though, Dorset would get a 15 per cent real rate of return even on pessimistic assumptions, rising to 30 per cent on less pessimistic assumptions.

Mr Hearne said that the rate of return depended on the production profile and that a very substantial increase in present production would be required to justify a higher bid. Dr Phipps added that such an increase depended in turn on planning permission, including that for a pipeline, which was not under their control. He did not see how Dorset could increase their initial payments

substantially except in staged payments - ie a first tranche, a second when planning permission was received and a third when production increased. This would help with the group's tax problems but the main point was that, if production did not rise above 3,600 b/d, an initial payment of more than £50m could never be recovered. The Secretary of State replied that BP would help Dorset get their planning permissions. The initial payment would have to be increased but if it could not be done sufficiently, he would be willing to consider staged payments as well. However, Dorset were supposed to be in the risk business.

J-D.

J D WEST
PS/Secretary of State
Rm 1237
Ext 6402
20 January 1983

cc PS/Minister of State
PS/PUSS (Commons)
PS/PUS
Mr Jones
Mr Campbell
Mr Wiggins
Mr Wilson
Mr Macintyre
Mr S Price
Dr Heathcote
Mr Dart
Dr Rouse

EXTRACT FROM TENDER DOCUMENT, JULY 1982.

In addition to Royalty payments, the licensees are obliged to pay to the Secretary of State an annual payment calculated by reference to the size of the Licence Area in square kilometres. The sum presently payable is £100 per square kilometre. This will be increased to £110 per square kilometre with effect from 1st April, 1983.

c. Land and land rights

The disposal of the land and the land rights will depend on whether or not GC(E) ceases to be Operator.

If it ceases, GC(E) and British Gas will hold the land, easements and licences as trustees for the joint venture against a suitable indemnity and an undertaking to use all reasonable endeavours to procure, where possible and as soon as practicable, consents to the necessary transfers and assignments. The planning permissions personal to GC(E) will require further discussion with the planning authority.

If GC(E) continues as Operator, it will, under the terms of the Joint Operating Agreement, continue to hold the freehold and leasehold land, the easements and licences and will have the benefit of the planning permissions including those personal to it.

1. Further information

Enquiries to BP should be addressed to the Chief Executive, BP Petroleum Development (UK) Limited, Britannic House, Moor Lane, London EC2Y 9BU.

Enquiries to Dorset County Council should be addressed to the County Planning Officer, County Hall, Dorchester, Dorset DT1 1XJ.

Enquiries to the Department of Energy, whether in respect of paragraph 8 or otherwise, should be addressed in writing to W. I. Macintyre, Esq., Assistant Secretary, Gas Division, Department of Energy, Thames House South, Millbank, London SW1P 1QJ.

British Gas, GC(E), ERC and S. H. Landes will not accept direct requests for additional information. Requests should be submitted in writing to Lazards, at 21 Moorfields, London EC2P 2HT for the attention of T. J. Manners who will arrange for the request to be passed to the appropriate party. The right is reserved to refuse any request for further information. British Gas reserves the right to convey to other recipients of this document any additional information sought by and given to one prospective bidder.

GC(E) proposes to make arrangements for interested parties to visit the sites in the Licence Area: dates will be arranged in due course.

2. Bases for offers

a. Operatorship

Offers may be made on either or both of the bases set out in paragraph 6.

b. Form of consideration

Offers may be made on the basis that the consideration is provided in full on completion or in instalments, the first on completion and others thereafter. Provision for future payments may be based on additional reserves discoveries, production, revenues, profits or otherwise.

c. Interests to be acquired

The interests to be acquired are set out in paragraph 10a.

3. Procedures and timing

Offers must be made in writing and delivered to Lazards by 3 p.m. on 1st October, 1982, or such later date as may be notified to all recipients of this document ("the closing date") in a plain sealed envelope marked on the outside "Offer: Licence PL 089". Delivery will evidenced, if requested by the issue of a receipt by Lazards. No offer will be opened until after the closing date.

British Gas may accept one of the offers submitted by the closing date but reserves the right not to accept any of them either then or at any later stage.

The procedures after the closing date and the likely timing will be as follows:—

(i) an offer, or a shortlist of offers, will be chosen and all bidders will be informed whether or not their offer has been included on the shortlist. This stage is expected to be completed within 14 days of the closing date.

(ii) British Gas will evaluate the offer or offers on the shortlist, which will involve meetings with shortlisted bidders and British Gas. In addition, BP will make itself available to bidders during this stage to discuss future arrangements between them. British Gas reserves the right to communicate to shortlisted bidders the terms of the most attractive offer made during this stage (although not the identity of the offeror) and to allow all shortlisted bidders one opportunity to amend their terms. It shall be in the sole discretion of British Gas to determine which is the most attractive offer and in what terms to communicate it to shortlisted bidders. During or at the end of this period, British Gas may require a bankers letter in respect of the availability of any cash sum offered on completion. The timing of this stage is difficult to predict but it is unlikely to be completed in less than one month from the conclusion of the previous stage.

(iii) British Gas will select an offer, or possibly more than one, in respect of which a purchase and sale agreement will be negotiated. Unsuccessful shortlisted bidders will be informed. The decision as to which offer will be accepted will be made when all such agreements are ready for signature. The agreement with the successful bidder will be signed on the basis of the conditions set out in (iv) below.

(iv) the agreements will be conditional on:

(a) the non-exercise by BP of its rights of pre-emption (see paragraph 1e above); and

(b) the written consent of the Secretary of State for Energy to the assignment of the British Gas interest in PL 089 (see paragraph 8a above);

BP's right of pre-emption runs for 30 days from the date on which it receives written notice of the price, terms and conditions set out in the conditional agreement. It is expected that the Secretary of State will reach a decision on assignment within seven days of BP's decision. British Gas will thereupon be free to complete the sale.

14. Documents available for inspection

Copies of the following documents are available for inspection (to persons identifying themselves, to the satisfaction of Lazards, as authorised representatives of recipients of this document) at the offices of Lazards, 21 Moorfields, London EC2P 2HT during normal business hours on any weekday (Saturdays and bank holidays excepted) up to the closing date:—

(i) Licence dated 30th May, 1968 and Variation of Licence dated 23rd August, 1972, both referred to in paragraph 10.b. above;

(ii) the Joint Operating Agreement;

(iii) the conceptual study reports by S. H. Landes referred to in paragraph 2.e. above;

(iv) the Consultative Document, entitled "Onshore Oil in Dorset", referred to in paragraph 5.c. above;

(v) the deeds and documents referred to in Section 1 of Appendix I;

(vi) the leases referred to in Section 2 of Appendix I together with a composite plan showing the rights;

(vii) the completed and draft deeds referred to in Section 3 of Appendix I;

(viii) the property licences and exploratory drilling licences referred to in Section 4 of Appendix I; and

(ix) the planning consents referred to in Section 5 of Appendix I.

29th July, 1982

CONFIDENTIAL

PRIME MINISTER

Wytch Farm

Mr. Walker will discuss with you the possibilities for resolving the difficulties over Wytch Farm. These are:-

(i) Give BGC a direction that it should accept the latest DBG bid. The legal advice, however, is that the existing practice under which BGC is operating precludes it from concluding a deal which does not represent the best price available - see the note attached to the Department of Energy's summary. It seems that a new direction will be necessary, but this could generate criticism from the PAC for failure to accept the highest bid.

(ii) DBG could be invited to match the RTZ offer, but if they refuse, we are faced with the choice of either (i) or

(iii) allowing RTZ to gazump BDG.

(iv) Engineering a joint bid.

(v) Adopting the approach used with Enterprise Oil where the asset was transferred to the Department which became the seller.

If, for whatever reason, DBG are now thwarted, the Government will be accused of bad faith. It is thought DBG have incurred around £2 million of expenses.

/ Attached

CONFIDENTIAL

Attached is a folder of the main documents of the case. I suggest you look at the summary and the legal opinion attached to it, and Flags A, G and K.

You will want to consider your role in resolving this problem. You should try and avoid becoming involved in detailed negotiations between the Secretary of State for Energy and his predecessor. A large part of the difficulty lies in the wish of each to so manoeuvre that they do not incur criticism. You should suggest that the two should meet to try and work out a solution which they could bring back to you on Monday afternoon. (We could probably find time after Misc 101.) You may wish to indicate that you regard a good faith argument as being a relevant consideration.

AT

5 April, 1984.

Ref. A084/1068

MR BUTLER

I told the Prime Minister yesterday evening that the Secretary of State for Energy wished to come and see her, for half an hour, on a problem connected with the disposal of Wytch Farm. He would like this conversation to be entirely private between the Prime Minister and himself, though he has suggested that I should be there too.

2. The problem is that Wytch Farm was designated by the Government for disposal by British Gas. British Gas resisted the proposal. The then Secretary of State for Energy (Mr Lawson) insisted upon disposal. He pressed for bids. He decided that the best bid was one from Dorset Group. He told British Gas that that was the best bid, and instructed them to negotiate with Dorset Group. British Gas complied, but with reluctance and dilatoriness, and the negotiations were strung out over two to three years. The deal looked near completion until the Chancellor of the Exchequer's recent Budget altered the figures.

3. One of the members of the British Gas Corporation is a Director of RTZ and Charterhouse, but (as a member of the Corporation) knows all the details of the negotiations with Dorset Group. It appears that the Chairman of British Gas urged the Chairman of RTZ to put in a rival bid for Wytch Farm. In the meantime Sir Denis Rooke wrote to the Secretary of State for Energy, to put on record the sequence of events and the fact that British Gas had been obliged to go into the negotiations with Dorset Group against its will and that the deal was non-commercial. RTZ have now written a letter indicating how much they would be prepared to bid for Wytch Farm. The offer they have in mind is substantially better than that available from Dorset Group. If, however, Dorset Group is gazumped, two things will happen: Dorset Group will argue that because their bid was accepted in principle and made the subject of detailed negotiations, they have foregone other commercial opportunities whilst the negotiations proceeded, and therefore as a matter of good faith

Flag A

the deal should be completed; and Mr Lawson's role in obliging British Gas to negotiate with Dorset Group is liable to become publicly known.

4. It is this last aspect in particular which the Secretary of State for Energy would like to discuss with the Prime Minister, before discussion extends to a wider group (including the Chancellor of the Exchequer).

RTA

ROBERT ARMSTRONG

5 April 1984

CONFIDENTIAL

FILE da

bc Bob Young

cc: MOD, HO, LCO, HMT, FCO, DES, NIO, MAFF, DoE, SO, WO, DTI, LPO, DHSS, CSD, HMT, LPSU, D/En., D/Emp, CDLO, CO

10 DOWNING STREET

From the Private Secretary

5 April 1984

Sale of the Government's Residual Shareholding in Associated British Ports Holdings

The Prime Minister has seen your Secretary of State's undated minute. She is content with his proposal to sell the Government's residual shareholding in ABPH. She is also content with the proposed method of sale and, subject to the views of the Leader of the House, that this should be announced on 10 April.

I am sending copies of this letter to Private Secretaries to members of Cabinet and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.

CONFIDENTIAL

SH

1

10 DOWNING STREET

From the Private Secretary

Prime Minister

It makes sense to sell some equity in the bulk before Enterprise Oil (June) and Jaguar (July).

Policy Unit agree with the proposed method of sale

- no placing
- no underwriting
- ~~no~~ tender with no minimum price
- encouragement for small investors
- no golden share.

At today's price of 295p, less a discount of say 5 per cent, our shareholding of 48.5% would bring in £54 million.

Agree?

MT

AT 4/4

22

PRIME MINISTER

SALE OF THE GOVERNMENT'S RESIDUAL SHAREHOLDING IN ASSOCIATED BRITISH PORTS HOLDINGS

You and colleagues will want to be aware that, following discussions with the Treasury and my merchant bank advisers, Schroders, I propose to announce on 10 April my intention to sell the Government's residual shareholding in Associated British Ports Holdings plc (ABPH) by offer for sale by tender.

This timing for the sale follows that agreed in our discussion in E(A) on the privatisation programme as a whole. It follows almost immediately after the publication of ABPH's preliminary 1983 results on 5 April.

I have discussed the method of sale with the Financial Secretary. We have agreed to rule out a placing, since, although it might yield higher proceeds, it would not give small shareholders the opportunity to buy shares. Schroders have advised me that a tender would be feasible and offers the possibility of higher proceeds than a fixed price offer. The Financial Secretary and I think there is a good case for dispensing with underwriting, but we intend to keep our options open until later this week.

I propose to make arrangements for preferential applications for shares by employees, and to take a number of steps, including a striking price application procedure, to encourage small shareholders. As in the previous sale,

22

I do not propose to retain any "golden share"; nor is there any limit in the Articles of Association on the proportion of shares any one person can hold. Any attempt by another person or company to gain control of ABPH would therefore be subject to the general statutory procedures on mergers and monopolies.

The main area of possible difficulty lies in the pricing. I shall need to be satisfied that the sale ensures an adequate return for the Government in all circumstances. I shall be considering the question of pricing and proceeds in detail with Treasury Ministers and our advisers shortly in advance of the sale.

Subject to the possibility of obtaining adequate proceeds, I would propose to announce the sale on 10 April. Unless the Leader of the House thinks otherwise, I would follow precedent and do so by a written answer. The prospectus for the sale would be published on 12 April, and application lists would open and close on 17 April. Given the usual sensitivities, I should be grateful if colleagues could exercise particular care in making any comments or statements in respect of ABPH or ports in general between now and Easter. This applies both to statements in the House and those made elsewhere.

I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY
April 1984

2F

File

MR TURNBULL

Associated British Parts Holdings

Some comments on Mr Ridley's undated note:

1. We strongly support the idea of selling residual shareholdings, especially in the quiet period before Enterprise Oil, Jaguar, et al. (Now that our decision on launch aid for A320 is public, why not dispose of 23.4% of British Aerospace as well, to get down to the promised minimum of 25%? At 229p, today's price, that would bring in £107m.)

2. To revert to ABP, we agree:
   - no placing
   - no underwriting
   - no minimum price
   - by all means give small investors a chance
   - no golden share.

3. We have no comment on the proposed timing, except the sooner the better.

4. For information, at today's price (295p) our shareholding of 19.4m shares (= 48.5%) would bring in £57m.

AY

R.Young

4 April 1984

FILE
da

10 DOWNING STREET

From the Private Secretary

28 March 1984

Horserace Totalisator Board

The Prime Minister understands that the Home Secretary is considering proposals from the Horserace Totalisator Board for their transfer to the private sector.

The Prime Minister would be grateful to be kept in touch with progress. Perhaps as a first step you could let me have a note which I could show to the Prime Minister setting out your Secretary of State's present views on this proposal, and the way in which it will be progressed.

David Barclay

Nigel Pantling, Esq.,
Home Office.

27 March 1984
Policy Unit

PRIME MINISTER

At your meeting tomorrow with the Chancellor, you might like to raise the question of funding and possible equity sales.

The privatisation programme is being delayed. Jaguar has slipped by 2 months, and Enterprise Oil is also slower than originally planned.

However, in the wake of the Budget - which has been taken by the City as a very positive series of measures for the company sector - the equity market has been strong, whilst the gilt market has done very little. The Bank of England, in a paper last year, said that the UK equity market could absorb up to £200 million of sales per week. The total new issues by companies sold into the market so far this year is only £100 million.

The case for selling some Government equity seems overwhelming, particularly given the Bank's uncertainties about selling gilts aggressively. There are only two candidates where additional shares could be offered relatively quickly.

The first is Britoil. The argument against is that it would make the sale of Enterprise Oil more difficult. The argument for is that £100 million or £200 million of Britoil shares could be sold quite quickly by means of a placement, and this level of sale should not disrupt the oil market sufficiently to damage the Enterprise Oil sale unduly.

An even better prospect is to sell 24 per cent of British Aerospace. They issued their results to the Stock Market today. This should enable the Government to counter any allegations of "insider trading" which Norman Tebbit has used as an argument to resist selling so far. Some people also believe a special share has to be voted through an EGM to protect British Aerospace from foreign predators before selling any more shares in the Corporation. All due speed should be made to vote such a share through, so that additional shares in the Corporation could be sold; or alternatively, 24 per cent sold, retaining the 25 per cent Government holding as a blocking mechanism prior to the establishment of a special share.

The advantage of selling British Aerospace shares after their results is that it goes some way to cutting back Government risk following the assumption of considerable risk by agreeing to back the Airbus project. This is a highly contentious issue between Treasury and DTI, but we would side with the Treasury in favour of an early sale. 24 per cent would raise about £100 million.

JOHN REDWOOD

10 DOWNING STREET

Prime Minister

From W.W.

CR

26/3.

David. Would you
draft a short letter
to Home Secretary saying
that I understand this
dispute has received proposals
for resolving the dispute. May
I be kept informed please.

MT

from the Chairman:
Sir Woodrow Wyatt

HORSERACE TOTALISATOR BOARD

Tote House
74 Upper Richmond Road
London SW15 2SU
01-874 6411

P.M.

I also attach my letter of 7 Jul 1983 which you may like to glance at. Progress is at a snail's pace. I am told a letter is on its way (nearly 9 mths!) to further the matter. Tote will make bid in favour of £3m (83-4)

W. W.

PERSONAL AND CONFIDENTIAL

12th March, 1984.

The Rt. Hon. Douglas Hurd, C.B.E., M.P.,
Minister of State,
Home Office,
50 Queen Anne's Gate,
London SW1H 9AT

As suggested by you we consulted Theodore Goddard. I enclose a draft memorandum which we have worked out with them and which I think could be a reasonable basis on which to begin discussions.

I would be very glad if we could start such discussions soon.

DRAFT - MQW 8.3.84.

HORSERACE TOTALISATOR BOARD

Future Structure and Status of the Horserace Totalisator Board ("Tote")

I. Introduction

The purpose of this short paper is to outline proposals for the transfer of the Tote to the private sector and to draw attention to the major issues.

II. Outline Proposals

1. Horserace Totalisator p.l.c. ("New Tote") will be set up as a Companies Acts public limited company and the assets and liabilities of the Tote will be vested in it.

2. New Tote will have a share capital of which, say, 30 per cent will be in the form of 'A' Ordinary Shares and 70 per cent in the form of Ordinary Shares.

3. The 'A' Ordinary Shares will be offered for subscription in cash to The Racecourse Association Limited ("RCA") as being the organisation which represents all the sixty racecourses operating under the Rules of Racing in Great Britain and which, like the Tote, is interested in maintaining or improving racecourses in this country.

4. The Ordinary Shares will be offered for subscription in cash as to, say, between 21 and 28 per cent thereof (i.e. approximately 15-20 per cent of the total share capital) to the employees of the Tote at a discount and as to the balance to the public generally.

5. Part of the proceeds of the issue of the share capital of New Tote could be paid to H.M. Government by way of consideration for the vesting of the Tote's

assets in New Tote to reflect the fact that, although the Tote has never been owned or financed by the State, it may be said to have been set up and operated for the benefit of the public as a whole. The balance of such proceeds of issue would be retained by New Tote for the development of its business.

6. Of the Tote's two present exclusive rights, namely (i) the exclusive right to run totes at any approved racecourse (or to appoint agents to run totes) and (ii) the copyright in the tote dividends, will be vested in New Tote for an initial period of, say, 5 years ("the Initial Period"). Power will be granted to New Tote to dispose of or relinquish those exclusive rights (as regards (i) in whole but not in part) but only with the consent of RCA as the holder of the 'A' Ordinary Shares of New Tote.

7. Provisions will be included in the Memorandum of Association which will preclude a take-over of New Tote without the sanction of the Court under Section 206 Companies Act 1948 for the Initial Period.

8. The Ordinary Shares and the 'A' Ordinary Shares will rank pari passu in all respects except that the consent of the 'A' Ordinary Shares as a class will be required for:-

(i) any disposal by New Tote of the whole or a major part of its business;

(ii) any disposal or relinquishment by New Tote of its exclusive rights;

(iii) any winding up of New Tote;

(iv) any matter adversely affecting their rights, except for any changes in capital

structure.

9. The ~~Directors~~ Members of the Tote Board will initially constitute the Board of New Tote which will thereafter be accountable to the shareholders of New Tote and appointment to the Board will be in the hands of the Ordinary Shareholders.

from the Chairman:
Sir Woodrow Wyatt

HORSERACE TOTALISATOR BOARD

Tote House
74 Upper Richmond Road
London SW15 2SU
01-874 6411

7th July 1983

STRICTLY PRIVATE AND CONFIDENTIAL

The Rt. Hon. Douglas Hurd, M.P.,
Minister of State,
Home Office,
50 Queen Anne's Gate,
LONDON,
SW1H 9AT

PRIVATISATION

THE ADVANTAGES

1. The Home Office would not be bothered any more with answering for a gambling organisation it does not own or get benefits from. It is illogical that it should be and quite unnecessary and unproductive.

2. The Tote would be able to expand much more. As the previous Home Secretary pointed out in his letter of 5th September 1979 the Government does not stand behind the Tote in any way and expressly denies responsibility for its liabilities. It would not give us even a letter of comfort when we were seeking to borrow money to buy a large betting chain. If the Tote were on its own it could raise money through share capital and rights issues and so forth and expand its business considerably. The government would lose no money because it has never given the Tote any since its inception in 1928. The original money to start the Tote was borrowed from the banks without a guarantee from the government and was later converted into a loan stock which has been paid off years ago.

3. If privatisation allowed for, say, up to 15/25% of the new operation being owned by the Levy Board and, or, the Racecourse Association (the exact amount would have to be thought about more carefully) then racing would be assured of continued benefit through the profitability of the Tote. 30% now suggested

4. Privatising the Tote would square with the government's philosophy.

DIFFICULTIES

1. The Tote has a monopoly to run pools on approved horse racecourses and pools on horse racing off the course. This is a two way matter. Frequently it involves the Tote in running Tote cash operations on racecourses where it makes a loss. It is not statutorily obliged to do so but we do it because we feel that as we were set up to provide an alternative betting service we should always do so even when it involves inconvenience to ourselves. In my personal view there would have to be some legislation which maintained the Tote monopoly on running pools on horse races while requiring the Tote to continue to provide Totes on all approved horse race courses or arranging, as we have the power to do, for somebody else to run them on any course or courses where we felt it desirable or possible that this should be done; although this last would be unlikely as it would be impossible to maintain a uniformity of standard in Tote dividends for use off the course if more than one organisation were operating totes on racecourses.

   There might be a possibility of hiving off the betting shops and privatising only them but this would be dangerous. The betting shops' profits have enabled us to tide the Tote over difficult times of falling attendances - we would never have introduced our computerisation on courses which cost us £4.5 million if we had not had the resources of the betting shops to rely on. Indeed, the Tote on course was very near collapse when I became Chairman in 1976.

2. If the Tote were floated as an ordinary public company there would be the danger of one of the Big Four bookmakers, or anyone else, buying its shares and getting control of it. Then the determination to help racing and to maintain totes on racecourses even if they are unprofitable might be diminished. This might be averted by the Levy Board and, or, the Racecourse Association having A shares which should be able to block an undesirable takeover.

TOTE'S CONTRIBUTION TO RACING

1. Curiously the Tote has no instructions in the current Act of Parliament with what to do with any profits we make. We have over a period of years since I became Chairman paid something in the order of £1 million as a voluntary contribution in excess of our legal Levy requirement (and in excess of the rate charged to bookmakers) to the Levy Board.

2. We have spent £640,000 on sponsorship during the last three years. The rest of our profits we have used to develop the business.

3. It may be that part of the legislation required should enjoin on the Tote that they continue to provide sponsorship for races which presumably would be done anyway as other big bookmakers, though not all, do at the moment. But the previously mentioned suggestion of giving to the Levy Board and, or, the Racecourse Association 15/25% of the shares should ensure a substantial contribution to racing out of the profits. now 30%

WHAT SHOULD THE GOVERNMENT GET OUT OF IT?

(superseded by Para 5 in draft sent to N.O. on 12 Mar 84)

1. Nothing. It has contributed nothing to the Tote unlike all the other ventures which are being privatised.

   It has not even given us the comfort of a guarantee. The Tote has never been a charge of any kind on the public spending requirement and has expressly been excluded from having its debts paid by the government if it failed.

Woodrow Wyatt

CC NO.

NBPM

AT 26/3

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 6169

MO 21/8/5

26th March 1984

Dear Nick

SALE OF SEALINK

Thank you for copying to me your letter of 16th March to John Moore and the draft BR Press Release. I was pleased to note that defence considerations were mentioned.

I would be grateful if your officials could keep my Department informed of progress. We will obviously have an interest in the information provided to prospective buyers insofar as it concerns the continuing availability of the Sealink fleet for defence purposes.

I am copying this letter to the recipients of yours.

Yours ever

Michael Heseltine

The Rt Hon Nicholas Ridley MP

CONFIDENTIAL

PCNO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM
AT
29/3

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

23 March 1984

Dear Nigel

SEALINK PRIVATISATION

Michael Heseltine and I disagree on one point about the privatisation of Sealink. It concerns flagging-out of Sealink vessels, and has been dealt with so far in correspondence (my letter of 29 February and Michael's of 19 March, both copied to you). We need to settle this quickly if the Sealink privatisation timetable is not to slip; the plan is for the prospectus to be with the printers by Friday 30 March at the latest, so that it can issue in the following week. I should therefore be grateful if you would chair a meeting with the two of us as soon as possible to resolve the issue. If you agree, my office will be in touch to arrange a time.

I am copying this letter to the Prime Minister, Michael Heseltine, and Sir Robert Armstrong.

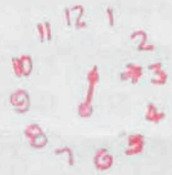
Yours ever
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

Econ Pol
Privatization pt 9.

23 MAR 1984



CC NO

NBPM

AT 20/3

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 6169

MO 21/8/5

19th March 1984

Dear Nick

SEALINK

Thank you for your letter of 29th February.

I am sorry you have found it necessary to reconsider your earlier view about restricting Sealink from "flagging out" its ships without Government approval. The MOD has, of course, always known about the "open register" policy and agreed your Department's recent statement of the defence aspects of that policy to the Monopolies amd Mergers Commission. However that statement was clearly made in the circumstances of the Trafalgar House bid for P&O. The sale of Sealink, which of course I strongly favour, has a significant defence dimension of its own.

As John Stanley explained at his meeting with you, the Sealink ships represent about one third of the total we need for our cross-channel reinforcement plans, the importance of which needs no stressing. Once these ships are in private ownership it is only by ensuring that these ships remain under the British flag, unless Government approval to flagging out is obtained, that we can keep them within the scope of our requisitioning legislation.

The Rt Hon Nicholas Ridley MP

We are I think now agreed that the inclusion of a restriction on Sealink from flagging out its ships without Government approval presents no legal difficulty. We also do not consider that it should materially affect the sale price given the fact that the new Company will of course still be free to sell its ships to whomever it wishes. This being the case, I must ask that we include a restriction on "flagging out" without Government approval.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Foreign Affairs, the Home Department, Trade and Industry, Northern Ireland, Scotland and Wales, to the other members of E(DL); and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

Econ Pol - Pt 4

PRIVATISATION

cc NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

(2)

Prime Minister
To note that announcement of Sealink sale will be on Monday
AT 16/3

John Moore Esq MP
Financial Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

16 March 1984

Dear Mr Moore,

SEALINK SALE

As I said in my letter to Michael Heseltine of 29 February, BR have been making preparations to announce the sale of Sealink in mid-March. I am now writing to inform you, and colleagues, that the actual announcement will be made on Monday 19th along the lines of the attached draft BR Press Release. At the same time BR's merchant bankers (Morgan Grenfell) will be writing to some 50 to 60 groups or individual companies who seem likely to be interested in this sale; over half of these have already expressed some interest.

In the light of responses BR will then issue a confidential Memorandum to the most likely contenders, and will later provide more detailed information to those on a selected short list. I shall of course be involved in the various stages of selection, and will keep colleagues informed.

I am copying this to the Prime Minister, to members of E(DL), to the Secretaries of State for Foreign Affairs, for the Home Department, for Defence, for Scotland, Wales, and Northern Ireland, and to Sir Robert Armstrong.

Yours sincerely,

Dinah Nichols

pp NICHOLAS RIDLEY

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

Draft 14.3.84/JCBL

PRESS RELEASE

Disposal of Sealink U.K. Limited

The British Railways Board ("BRB") announces that it has instructed Morgan Grenfell & Co. Limited ("Morgan Grenfell") to seek offers to acquire its entire interest in Sealink U.K. Limited, a wholly-owned subsidiary of BRB. Morgan Grenfell has accordingly written today to those parties who have already expressed an interest in acquiring Sealink UK and to others who might have such an interest informing them of the basis on which the disposal will proceed.

Sealink UK provides the most extensive network of ferry services in Europe and owns and operates various harbours in the United Kingdom, including Parkeston Quay, Folkestone, Newhaven and Holyhead. In 1983 its fleet of 38 ships, operating on 23 routes, carried some /18.6/ million passengers, /2.2/ million accompanied passenger vehicles and /0.8/ million road and rail goods vehicles and separate containers

Sealink UK made a profit before interest and tax in the year ended 31st December, 1983 of /£12.8/ million on a turnover of /£264.8/m, compared with £2.9 million on a turnover of £232.3m, in the previous year.

At 31st December, 1983 the book value of BRB's interest in Sealink UK, adjusted to reflect a valuation of Sealink UK's land, buildings and fixed plant at 30th September, 1983, amounted to /£120.1/ million.

BRB wishes to dispose of its entire interest in Sealink UK and does not intend to consider offers for part only of Sealink UK's business. In determining the acceptability of offers, BRB will have regard to the assurances an offeror is prepared to give regarding the employees of Sealink UK and the future conduct of its business, which is of particular relevance as BRB will be involved in a continuing contractual relationship with the purchaser. It will also have regard to an offeror's ability and willingness to extend to Sealink UK's employees an opportunity to participate in a share ownership scheme.

The consent of the Secretary of State for Transport to the disposal will be required and BRB have been informed that in deciding whether to grant such consent the Secretary of State will have regard (inter alia) to the implications for the national interest which would include defence and competition considerations.

ECON POL: Privatisation
A9

cc ~~[illegible]~~

FCS/84/85

SECRETARY OF STATE FOR TRANSPORT

Sealink: Privatisation and Defence

1. Thank you for copying to me your letter of 29 February to Michael Heseltine.

2. I have no objection to privatisation proceeding on the terms you suggest.

3. I am copying this minute to recipients of yours.

GEOFFREY HOWE

Foreign and Commonwealth Office
16 March, 1984

ECON POL: Privatisation

Pt 9

CC NO

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

NBM
AT 8/3

From the Minister

CONFIDENTIAL: MARKET SENSITIVE
The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London SW1P 3EB

8 March 1984

Dear Nick

SEALINK: PRIVATISATION AND DEFENCE

In your letter of 29 February to Michael Heseltine you invited agreement to the proposition that we should now proceed with the privatisation of Sealink to a buyer acceptable on defence grounds but that we should not impose any further restrictions - especially as regards "flagging out".

My predecessor last wrote to yours on 20 May 1982 when he drew attention to our interest in the food side of re-supply and reinforcement in wartime. This is only a comparatively small part of the overall defence requirement and it will be for Michael Heseltine to respond on this. For my part, however, I think that the safeguard you propose of not approving the sale to a company considered unsuitable on defence grounds should safeguard our interests and I fully accept that for practical reasons "flagging out" seems to be a most unlikely development.

I am copying this letter to the Prime Minister, Geoffrey Howe, Leon Brittan, Jim Prior, Michael Heseltine, George Younger, Nick Edwards, other members of E(DL) and to Sir Robert Armstrong.

Yours ever
Michael

MICHAEL JOPLING

CONFIDENTIAL

2 March 1984

File

MR TURNBULL

I have Nicholas Ridley's note on Ports Policy and Sealink.

I agree with both of them, and would suggest an encouraging reply from No.10 on both recommendations.

JOHN REDWOOD

CONFIDENTIAL

CONFIDENTIAL

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

To note

AT 2/3

John Moore Esq MP
Financial Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

29 February 1984

Dear John

will respond if required

Thank you for your letter of 3 February about the timetable for the sale of Sealink.

I confirm that the sale document for Sealink has been delayed. The main reason for this was British Rail's decision, on the advice of their merchant bankers, to incorporate Sealink's audited results for 1983 in the sale document, rather than to rely as originally intended on a statement of the predicted outturn for 1983. BR now intend to issue a letter in the middle of March inviting people to say whether they have any firm interest in bidding for the company; they would then send the sale document to serious contenders at the end of the month. Their intention is to carry through the negotiations and to complete the sale by the end of June.

I share your concern about the slippage in the timetable and I am maintaining maximum pressure on British Rail to make quick progress. I have Bob Reid's personal assurance that everything will be done to keep to the present timetable. I am satisfied that those responsible

CONFIDENTIAL

for the sale within BR are as determined as we are, to get this company into the private sector as quickly as possible, subject of course to a purchaser offering terms which are acceptable.

British Rail have made it clear that they will shortly be seeking offers, both from those who have already expressed an interest, and more widely. In the last few days a consortium headed by Charterhouse Japhet and the National Freight Company, and including Sealink's senior management, have publicly stated their interest in bidding for the company.

I am sending a copy of this letter to the Prime Minister, and to E(DL) colleagues, and to Sir Robert Armstrong. I am writing separately to Michael Heseltine about the defence issues which have been raised about the sale of Sealink.

Yours ever
Nicholas

NICHOLAS RIDLEY

Econ Pol. Pt 9

Privatisation

CONFIDENTIAL: MARKET SENSITIVE

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AT 2/3

The Rt Hon Michael Heseltine
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

29 February 1984

Dear Michael

SEALINK: PRIVATISATION AND DEFENCE

When I met John Stanley on February 6 to discuss this question I promised to consider sympathetically the possibility of restricting Sealink from "flagging out" any of its ships at any time, after privatisation, without Government approval. The proposition was that Sealink's Articles of Association would require its ships to continue on the UK register, except where express permission was given by the Government holder of a "special share".

I can confirm that the company will not go to a buyer we consider unsuitable on defence grounds, because the sale will require my consent, on which I will naturally consult you. However, compelling difficulties have arisen in the concept of a legal restriction on flagging out after privatisation.

I have just learned that the report of the Monopolies and Mergers Commission (MMC) on the bid by Trafalgar House for P&O is due to be published in mid-March, within days of the invitation of bids for Sealink. I think you will know that in October I agreed a statement on defence, cleared with the Ministry of Defence, as suitable for attributable publication in the MMC's report: the report now says:-

> "It appeared to us that the Government must have formed some view of the effects of flagging out upon the requirements of national defence. We therefore consulted the Department of Transport, who are responsible for these matters, and the following reply was given with the authority of the Secretary of State:
>
> > The role that the Merchant Navy might play in support of defence forces in times of emergency or war is kept under review by the Government. The Merchant Navy continues to be able to meet foreseen defence needs. In these circumstances the Government does

not consider it necessary to place restrictions for defence reasons on the flagging out or sale abroad of ships registered in the United Kingdom.

This appears to us to cover the defence aspects of the issue".

There is a statutory procedure for Norman Tebbit to excise passages from MMC reports in the national interest before publication: but I think the importance of this passage to the MMC's conclusion is such that it could not be excised.

In this light I am afraid we could not defend special restrictions on flagging out of Sealink vessels. There is sustained pressure from the Maritime unions, and other interests, to stop flagging out by British shipowners. We should be challenged to justify the distinction we were seeking to make between Sealink on the one hand and P&O and other shipping companies on the other. We could not claim that Sealink makes a unique contribution to our contingency plans for cross-channel reinforcement, because the contribution of European Ferries is now as great, and that of P&O is also substantial. Our opponents would quickly seize on and exploit our giving one set of rules to the MMC for P&O, while ourselves playing by another over Sealink. We should be held to have abandoned the advice we gave the MMC and thereby invalidated their report. P&O themselves would press this point strongly.

I do not anyway think Sealink at all likely to register ships under a foreign flag once privatised. It has not sought to do so hitherto: nor have its British competitors already in the private sector. Even if it wished to do so, I am sure it would find the industrial difficulties insuperable. British shipowners take it for granted that it is not industrially practicable to flag a vessel out and continue to operate it into and out of British ports. The threat of "blacking" is too potent, above all for ferries, for which the confidence of a quick and troublefree turnround in port is of course essential. Fortunately, cross-channel ferry traffic is growing; and the British flag share of it is high, and holding up well. Whether this continues however will naturally depend on the competitive success of our operators. Privatisation of Sealink will contribute to this: and will thus help our defence plans as well as our economic interests.

We recognised anyway that a "special share" restriction could be circumvented. Proposing it could therefore leave us dangerously exposed. Once our opponents had seized on its weaknesses we could find ourselves driven to impose more burdensome constraints on the company, however unnecessary, which could of course jeopardise its sale.

I hope therefore that you and the colleagues to whom I am copying this letter will agree that we should now proceed with the privatisation of Sealink to a buyer acceptable on defence grounds, without encumbering its subsequent commercial operations further than those of other ferry companies. If this is agreed I hope British Rail will publicly invite bids in mid-March.

I am copying this letter to the Prime Minister, the Chancellor, the Secretaries of State for Foreign Affairs, the Home Department, Trade and Industry, Northern Ireland, Scotland and Wales, to the other members of E(DL) and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

Econ Pol. 159

Privatisation

CONFIDENTIAL

24 February 1984
Policy Unit

PRIME MINISTER

CONTRACTING-OUT IN LOCAL GOVERNMENT

E(A)(84)10 → The Secretary of State for Environment has produced a good paper for E(A) which will be chaired by Nigel Lawson. Having catalogued the progress to date in encouraging contracting-out, he analyses three options for legislation to take the process much further.

He is correct to recommend the route of compulsory competition. He offers two models for handling the legislation. General powers could be taken to enable competitive tender: specific areas would be scheduled for such compulsory competitions. Alternatively, there could be legislation for specified areas. He suggests further study: that is fine, but our hunch is that the general legislation is the best way of proceeding.

The schedule for refuse collection and cleansing contracts shows large savings. Local authority spending is still not under proper control. It is vital that savings are achieved, and better that they be made in a way which maintains or improves the delivery of basic services rather than through the ordeal of more cuts. If you agree with the pressing priority of this work, you could write a few lines to Nigel offering E(A) every encouragement in supporting Patrick Jenkin's initiative, and recommending Option 3 of his paper for early legislation.

X

JOHN REDWOOD

Prime Minister ①

Patrick Jenkin has suggested a study into feasibility of legislating Option 3. Policy limit at X suggest you urge early legislation. I think it would be unwise to skip the study altogether but you could legitimately question whether study need take until July.

Agree?

Annex A of the Official Paper is worth a look.

AT 24/2

I do not think we can add to early legislation. But July seems reasonable in view of the overloaded DoE.

CONFIDENTIAL

Duplicate on Post office: Future

BARCLAYS MERCHANT BANK LIMITED

REGISTERED IN LONDON ENGLAND · REG. NO. 181866 REG. OFFICE: 54 LOMBARD STREET, LONDON, EC3P 3AH

TELEGRAPHIC ADDRESS: BARCLOSEA LONDON EC3V 0BA
TELEPHONE NO. 01-623 4321
TELEX: 8812124 BMB G

P.O. BOX NO. 188
15/16 GRACECHURCH STREET
LONDON, EC3V 0BA

Our Ref:- LMR/JEC

3rd February, 1984

PRIVATE AND CONFIDENTIAL

Andrew Turnbull
10 Downing Street
London SW1

Dear Mr Turnbull

PRIVATISATION OF BRITISH TELECOM

We have today submitted the enclosed memorandum to the Secretary of State for Trade and Industry. It proposes an active role for the Barclays Group in the privatisation of British Telecom.

Copies of the memorandum and the covering letter to the Secretary of State have been sent to the Prime Minister and to Treasury Minister. We are seeking a meeting with the Secretary of State in the near future.

Yours sincerely

Lynde Rouse.

L M ROUSE

Enclosure

KCNO. CONFIDENTIAL NAPM AT 1/2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JH 749

PS/ *Secretary of State for Trade and Industry*

1 February 1984

Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Margaret,

COMPETITION AND PRIVATISATION

The Annex to the Chancellor's paper E(A)(84)3, which was discussed last week, contained a summary on each of the principal candidates for privatisation in my Secretary of State's field of responsibility. Although he is broadly content with the way in which the position was described, he has asked me to let you have the enclosed note, clarifying a number of points.

2 I am copying this letter to the private secretaries to all other members of E(A) and to Richard Hatfield (Cabinet Office).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

CONFIDENTIAL

DTI PRIVATISATION CANDIDATES

DTI Comments on the Treasury summaries in the attachment to E(A)(84)3

BL

- In paragraph A privatisation is defined solely in terms of sale of the component businesses. The understanding between the Government and the Board refers instead to the introduction of private sector equity into the business, and this need not necessarily involve sale, at least in the first instance.

- Paragraph D refers to the possibility of Honda equity participation in Austin Rover. This seems to us a somewhat remote possibility which should not be overstated.

- Paragraph F refers to BL's becoming independent of Government finance after 1983-84. Ministers have not yet agreed whether the final £50m originally pencilled in for 1984-85 but deleted from the Estimates should be paid; we cannot prejudge this question, on which separate decisions, taking into account developments on eg Leyland Trucks, will be needed.

British Shipbuilders

- Paragraph C should say that MOD's desire for competitive tenders may need to be taken into account. As it stands, the summary implies that some form of competition is definitely to be preserved - which prejudges one of the policy decisions that Ministers have yet to take collectively.

- Paragraph D: we are hoping to link our E(DL) paper to MOD's proposals for ordering 2 frigates. Our latest information is that MOD will not be ready to make proposals until the end of February. The presentation of this E(DL) paper is our next action on this.

BTG Holdings

INMOS

- It is most unlikely that there will be a 'sale' of INMOS within six months which will generate proceeds for the Exchequer. What is likely to happen is first the raising of new capital from the private sector to fund the company's development, involving progressive dilution of the BTG's equity. This would lead eventually to the BTG selling their shares, with proceeds payable to the Exchequer, but this second stage may not occur for a year or more, depending on the state of the markets and the company's progress.

- The next action, which will occur in conjunction with the company and the BTG is likely to be agreement within the next few months to an investment of new capital, possibly by a consortium of industrial and institutional investors for a minority equity stake.

British Telecom

- The summary is misleading in its statement (in D) that officials are 'currently working towards' flotation in the Autumn: DTI Ministers are determined that this objective is reached and the timing of the flotation has been announced.

- It is, in our view, doubtful indeed if a figure approaching the £5 billions mentioned in F can be achieved - it certainly cannot if none of the present debt is converted into equity.

- On the need for collective Ministerial attention, the Secretary of State intends to keep in very close touch throughout with the Chancellor and his Treasury colleagues, and will consider as time passes whether any of the choices which come to him could usefully be referred to E(A) for collective discussion; at present he is rather doubtful whether such a discussion is likely to prove necessary.

Post Office and Girobank

DTI aim to prepare a paper on the issues in consultation with the Treasury for discussion in mid-1984.

British Aerospace (residual holding)

- Unlike privatisation of a majority stake, disposal of a residual holding does not bring efficiency gains: it is merely a cash raising exercise and deserves a lower priority. In the case of British Aerospace, the possibility of a further disposal can only be examined after decisions have been taken on the A320 and will have to take account of the impact on customer and investor confidence. If shares fell sharply that would limit the company's ability to raise equity capital.

- Creation of a Special Share, and an announcement of the Government's intentions is therefore not under active consideration by DTI. The timing of any further disposal cannot realistically be predicted at present.

Econ Pol Privatization
Pt 9

BF to read bilateral

CONFIDENTIAL

MS

PRIME MINISTER

cc Mr Ingham
Mr Redwood

Privatisation

You will see from the attached that Mr. Walker is very angry about the Max Wilkinson article in Saturday's FT (which is echoed in a similar way in the Telegraph). Mr. Walker's view is that with careful handling, the management and unions of the gas and electricity industries can be brought to see privatisation as an opportunity and not something to be resisted. Though he supports the Government's policy on BT he feels this aspect could have been handled better. He feels that reports such as this will make this task extremely difficult - he has had already to placate Sir Denis Rooke and Mr. Jones.

I have had only limited success in tracking down the sources of these reports. The Treasury Press Office claim that Wilkinson approached them late on Friday to discuss an article which was by then largely complete. Accordingly to Wilkinson he had already spoken to the Department of Energy and he claimed that they had expressed the view that electricity was being put on the back-burner as it was a natural monopoly which it was too difficult to split up. On gas, Wilkinson said one of the options being considered by D/En was privatising BGC as it stood. The Treasury Press Office drew attention to the Manifesto and the Financial Secretary's speech which emphasised the need for securing greater competition rather than simply transferring public sector monopolies into the private sector.

D/En Press Office claimed they did not speak to Wilkinson though it is possible that he has spoken to officials in divisions.

/Mr Walker

CONFIDENTIAL

Mr. Walker is, of course, correct in saying that there has been no collective discussion on the privatisation of gas and electricity. D/En have still to make proposals.

The best way forward may be for you to talk to the Chancellor at the next bilateral, to alert him to Mr. Walker's concern and to ask that the two Departments co-ordinate their briefing line.

Agree?

AT

Yes

30 January 1984

PERSONAL AND CONFIDENTIAL

cc BI

PRIME MINISTER

After our discussion at E Committee on competition and privatisation I was very shocked that the front page of the Financial Times on Saturday, and the Daily Telegraph, should carry totally untrue stories about the method of privatisation.

The Financial Times, obviously very well briefed on various options the Treasury have asked my Department to look at, stated:

> "It was agreed that British Gas should not be sold off as one block in its present form, though such a sale was urged by Sir Denis Rooke, British Gas chairman...
>
> A consensus appears to have emerged among Ministers that the distribution networks for gas and electricity are natural public monopolies and should remain in public hands."

As you know, there has been neither discussion nor agreement on any of this. I have immediately had to inform both the Chairman of the Gas Corporation and the Chairman of the Electricity Council that these reports are untrue. Of course, what the reports have done is mobilise unions and management to express their hostility to what appears to have already been decided.

I hope you will immediately inquire as to where these briefings were given, and point out the considerable damage that has been done.

Peter Walker

SECRETARY OF STATE FOR ENERGY

30 January 1984

CONFIDENTIAL

CC NO

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2216 (Direct Dialling)
01-218 9000 (Switchboard)

MINISTER OF STATE FOR
THE ARMED FORCES

NRPM
AT 30/1

D/MIN(AF)/JS/1/5

26 January 1984

Dear Nicholas

SEALINK PRIVATISATION

You wrote to Nigel Lawson on 6 December about your plans for the privatisation of SEALINK, and there was a subsequent exchange of letters with John Lee and a further letter from Michael Heseltine's Private Secretary suggesting consultation between officials with the aim of providing a final view as early as possible. Our officials met on 5 January and we have since been considering the very real defence implications of the privatisation of SEALINK.

I can say straight away that we consider that there is no reason to hold up the sale of SEALINK, which I very much support. The only issue is whether the contingent defence needs for SEALINK's ships are such as to justify ensuring that the basis of the sale enables HMG to maintain a definite ability to requisition SEALINK's ferries for cross-Channel reinforcement. On present plans SEALINK provides the largest single component of the British-owned shipping that would be requisitioned for this purpose - about a third. Its loss from UK control would therefore be potentially extremely serious. I appreciate that it could be made good by other NATO countries but how quickly and how certainly is open to question and any doubt on either point increases the risk of delay to our planned reinforcement.

It seems to me therefore that we need to examine urgently what can be done to ensure that no SEALINK ship can be sold to a foreign owner or registered under a foreign flag without HMG approval and thus escape liability to be requisitioned under the royal prerogative. I understand that this would be possible legally and I should be grateful to know whether you would feel able to accommodate such a provision without detriment to the terms of sale.

I am copying this letter to recipients of yours.

Yours ever

JOHN STANLEY

Rt Hon Nicholas Ridley MP

CONFIDENTIAL

Econ Pol. Pt 8
Privatisation

30 JAN 1984

cc: ECON POL
Competition Policy

P.01211

PRIME MINISTER

Competition and Privatisation:
E(A)(84)3

BACKGROUND

1. At their meeting on 27 October, the Sub-Committee agreed that the pace of work on the privatisation programme should be accelerated, giving particular weight to the need to increase competition; and that the Financial Secretary, Treasury should pursue bilateral discussions with the main sponsor Ministers and draw up a timetable for discussion early in 1984 (E(A)(83)6th Meeting).

2. The Financial Secretary has now completed his discussions. The results are set out in the memorandum by the Chancellor of the Exchequer, E(A)(84)3. This draws attention to the implications of the proposed programme for the market and for the Government's legislative programme. He proposes that the Financial Secretary should continue to supervise progress, with the Chancellor reporting to E(A) as necessary on any significant variations of plan that may emerge. E(A)(84)3 stresses the need to ensure that the importance of increasing competition is taken into account.

3. Finally, the Chancellor of the Exchequer proposes that all Government shareholdings, other than 'special shares' which give Ministers exceptional rights to influence the operation of certain companies judged to be particularly important for the national interest, should be transferred to the Treasury so that they can be managed as a single portfolio and disposed of as appropriate.

4. E(A)(83)6th Meeting invited the Secretary of State for Energy and the Secretary of State for Scotland to put forward options for increasing competition in and privatising the gas and electricity supply industries. Papers on these matters are expected to come forward next month.

MAIN ISSUES

5. The detailed proposals in the attachments to E(A)(84)3 have been discussed with departments; and so far as we know there is unlikely to be any serious dissent. Nor is it likely that the Sub-Committee will dissent from the need to make increasing competition a dominant theme in the privatisation programme, or from the recommendation that the Financial Secretary should oversee progress. They will probably wish to concentrate on the following.

i. Should any major additions or deletions be made in the list of candidates for privatisation?

ii. Are the market implications of the proposed programme tolerable?

iii. Are the legislative implications acceptable?

They will also need to discuss:

iv. The proposal to transfer all except "special" shares to the Treasury.

The list of candidates

6. It seems unlikely that any member of the Sub-Committee will wish to suggest deletions from the proposed programme at

this stage. If there are any major difficulties these are more likely to emerge at the next stage when the specific options for privatisation are considered. If the programme is carried through as proposed it will represent a formidable reduction in the public sector within the life of this Parliament. The main areas left untouched on present plans will be:

- the NCB's mining activities
  (this would require primary legislation and it is no doubt better to concentrate effort during this period on closures)

- BL's Austin Rover volume car business
  (the commercial prospects are not thought good enough but collaboration with other companies such as Honda may lead to some equity participation)

- BS's merchant shipbuilding
  (depending on the Corporate Plan which E(NI) is to examine shortly, not much of this may survive)

- BSC's mainstream business
  (privatisation is likely to be beyond the life of this Parliament but the possibility of creating separate Companies Act companies is being pursued)

- the Post Office, other than National Girobank

- BR's railway business
  (although private finance for the Victoria-Gatwick line and possibilities for more contracting-out are being pursued)

Market implications

7. The chart annexed to E(A)(84)3 shows that the proposed programme would make heavy calls on the equity market. The Chancellor of the Exchequer's targets for asset sales are £1.9 billion in 1984-85, and £2 billion in each of the years 1985-86 and 1986-87. This is because he does not wish explicit targets, which might be published, to appear over-optimistic. In fact the individual figures for the major candidates where action is already in train add up to around £6 billion over the three years, for example:

British Telecom	£4 billion
British Airways	£1 billion
Enterprise Oil	£400 million
Jaguar	£200 million
Royal Ordnance Factories	£150 million

This makes no allowance for the British Gas Corporation, British Airports Authority and National Bus Company where possible sales might arise in 1986-87, or for minor candidates and possible sales of residual shareholdings in companies already in the private sector such as BP, Britoil, Cable and Wireless and BAe.

8. The capacity of the capital markets is for the Chancellor of the Exchequer to judge. But the Sub-Committee may wish to satisfy themselves that he is confident that the totals implied by his detailed proposals are realistic.

Legislative implications

9. The chart annexed to E(A)(84)3 envisages three major privatisation Bills for the 1984-85 Session: on the bus industry, the British Airports Authority, and the British Gas

Corporation. Firm bids have been made to QL for the first two Bills; but only a marker has been put up for the third. In all these areas there are major policy issues about the structure for privatisation on which serious discussion has not yet begun. It seems likely that the resulting Bills will be introduced late in the Session and will be contentious. If so, it will not be realistic to assume, as the chart does, that Royal Assent could be secured by the end of March 1985. We understand that the Lord Privy Seal, in fact, is not convinced that any of the legislation could be ready early enough in the 1984-85 Session to secure passage by the end of the Session, given the other demands made by the programme. His proposals to QL (in QL(84)3), which are to be discussed by that Committee on 24 January, QL has now provisionally decided to recommend the inclusion of only one of the three Bills - that relating to buses.

10. Treasury Ministers will no doubt argue strongly that this is an inadequate recognition of the importance to the Government's strategy of privatisation and increasing competition. On the other hand, there is no point in building the legislative programme on false premises. You will no doubt wish to question both the Treasury Ministers and the relevant sponsoring Ministers (the Secretary of State for Energy and Mrs Chalker representing the Secretary of State for Transport) on the realism of their estimates.

Transfer of shares

11. Who holds the Government's shares is essentially a matter of mechanics. We have no reason to suppose that members of the Sub-Committee will dissent from the Chancellor of the Exchequer's proposal to transfer ownership to the Treasury. Transfer to the Treasury of shares other than "special" shares may have the incidental presentational advantage of re-emphasising that the Government holds its shares as a

(temporary) investment portfolio and does not intend to intervene in the management of the companies concerned.

Next steps

12. It seems unlikely that there will be dissent from the proposals for organising the future work. The approach is broadly as follows:

i. the Financial Secretary to remain as coordinator of the programme;

ii. policy options on specific industries to be brought either to E(DL) under the Chancellor's chairmanship or in major cases such as gas and electricity to E(A) under your chairmanship;

iii. reports on the overall progress of the programme to E(A) as necessary.

HANDLING

13. It will probably be convenient to divide the discussion into two main parts.

i. All matters other than legislation (in particular any substantial changes in the list of candidates proposed in E(A)(84)3; market implications, and the transfer of shares to the Treasury); and

ii. legislative implications.

14. You might open the first part of the discussion by inviting the Chancellor of the Exchequer to introduce his proposals; the Financial Secretary, Treasury could then be

asked to expand on any points of detail. Any member of the Sub-Committee may wish to comment on the candidate or candidates for which he is responsible; but you will wish to discourage contributions on mere matters of detail which do not call the proposed programme seriously into question.

15. The second part of the discussion could again be introduced by the Chancellor of the Exchequer. The Lord Privy Seal could then be invited to reply. The Secretary of State for Energy and the Minister of State, Department of Transport could be asked for their assessment of the timetable for any legislation on their industries (gas, buses and airports) in the 1984-85 Session.

CONCLUSIONS

16. You will wish the Sub-Committee to reach conclusions on:

i. The programme of privatisation set out in the attachments to E(A)(84)3 and, in particular, the legislative implications.

ii. The proposed arrangements for supervision (day to day in the hands of the Financial Secretary, Treasury, with reports by the Chancellor of the Exchequer to E(A) as necessary).

iii. The need to give full weight to competition and deregulation.

iv. The proposed transfer to the Treasury of shares, other than "special" shares.

PL

P L GREGSON

24 January 1984

Privatisation

CONFIDENTIAL

NBPM

AT 2411

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

24 January 1984

Dear Peter

PUBLIC SERVICES (TRANSFER OF FUNCTIONS) BILL

I am responding to your letter of 16 December to the Lord President.

While I shall be very receptive to any suitable opportunities for hiving-off or privatising parts of any department, I have no immediate plans for operations of this kind. I am considering the possible contracting-out of one of our activities* - a relatively small one - but I am advised that it would probably not be legally regarded as a transfer of undertaking to which the Bill would apply.

If at any time in the future I did want to privatise or hive-off parts of the Department, the likelihood is that specific legislation would be needed. I can therefore see no immediate need, from my Department's point of view, for the proposed Bill.

* Contracting out work on International Haulage Permits

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I have, however, seen Patrick Jenkin's views on the possible effect on the abolition of the GLC and MCCs of the publication of the Bill in the same session as the abolition legislation, and indeed of sending the memorandum to the European Commission at all. I am bound to say I share his misgivings on this issue. Although we must be prepared for the opponents of abolition to make some capital out of the different treatment of Civil Servants involved in privatisation exercises on the one hand and local authority staff in the GLC and MMCs on the other, there seems to be a real danger that the submission of the memorandum to Brussels could raise the question of the applicability of the Directive to our local government proposals.

Copies of this letter go to recipients of yours.

Yours ever

Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

QUEEN ANNE'S GATE LONDON SW1H 9AT

24 January 1984

Dear Peter,

PUBLIC SERVICES (TRANSFER OF FUNCTIONS) BILL

I have read with interest your letter of 16 December to the Lord President.

I am content with your proposals to hand over the memorandum to the European Commission and to seek a provisional place for the Bill in the 1984-85 Session.

So far as an assessment of the need for the Bill in the 1984-85 Session is concerned in relation to my proposals for further transferring out, I do not think that the enactment of the Bill in this timescale will be crucial to my plans.

Yours,

The Rt Hon Peter Rees, QC., MP.

CONFIDENTIAL

ECON Pol
Privatisation

Chancellor of the Duchy of Lancaster

PRIME MINISTER

COMPETITION AND PRIVATIZATION - Paper by the Chancellor of the Exchequer for E(A) Committee

1. Number (iv) of the Conclusions in paragraph 10 reads:

> "to ensure that increasing competition and deregulation continue to be the dominant themes of the privatization programme".

2. You ought to know that we have run into a great deal of flak on the British Telecommunications Bill on this point. Our opponents (largely our own supporters) argue that per contra the Bill restricts competition and entrenches monopoly.

3. Lord Weinstock, one (but only one) of the proponents of this view, argues that what we are doing is selling a monopoly: to the extent that we restrict that monopoly we are reducing the proceeds of sale: that the Treasury requirement for money is regarded as paramount: and that therefore we are doing everything we can to maintain the monopoly.

4. Weinstock's argument is quite right. There is an inescapable conflict here between competition and the Treasury. In the Telecommunications Bill, despite what we say, the conflict has been resolved largely in the Treasury's favour. We shall face exactly the same problem when we come to privatize other monopolies such as gas and electricity.

A.C.

A C

23 January 1984

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF5309

Secretary of State for Trade and Industry

23 January 1984

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Peter.

PUBLIC SERVICES (TRANSFER OF FUNCTIONS) BILL

Thank you for sending me a copy of your letter of 16 December to Willie Whitelaw about the need for a Transfer of Functions Bill.

2 In my Department, in addition to those privatizations already launched, other ideas are being considered: as envisaged at present, a Transfer of Functions Bill will not be necessary for these. However, if the present state of the law is potentially an impediment in the way of some privatization schemes or would make them more expensive than they need be, then the law should be changed.

3 Copies go to members of H Committee and Ministerial Heads of Departments.

Yours
Norman

NORMAN TEBBIT

20 January 1984
Policy Unit

PRIME MINISTER

THE PRIVATISATION PROGRAMME

The arrival of a timetable should be welcomed by E(A). It should be used to keep up the pressure to denationalise a major proportion of the state trading sector.

How much can be sold?

Colleagues should not be too worried by the question of what the stock market can bear. "Informed" Stock Exchange opinion 3 years ago said that it would be quite impossible to sell more than a few hundred million pounds in any given issue, and more than £1,000 million in any given year. "Informed" Stock Exchange opinion now believes that £2,000 million per annum is a feasible maximum, and that an individual issue can reach at least £1,000 million.

The institutions (pension funds and insurance companies) will have more than £14,000 million of other people's money to spend on new investments in the next financial year. Their appetite for overseas securities is likely to decline, following 3 years of rapid build-up in their overseas portfolios. It will decline both because they have reached the higher level of overseas exposure they were seeking (20 per cent of a typical pension fund is invested outside the UK) and because overseas stock market returns for the UK investor have been very good over the last 18 months, meaning that prices now look quite high. The amount of new gilt-edged stock that will need to be supplied to UK markets will be reduced by the extent to which the Government deficit is funded through sales of extra equity assets. We would be wrong, therefore, to be too timorous on the grounds that the market will not stand further issues. Any issue of less than £150 million can be accommodated relatively easily. Issues in the £500 million-plus category do need careful spacing, but we should not assume that you can only do one in any given year. Looking at the timetable, I think we could increase the targets for 1985-86 and 1986-87 above the £2,000 million pencilled in. The Bank of England will argue strongly against this, but their advice on this matter should not be accepted.

Competition and Privatisation

Increasing competition is a vital part of the privatisation programme. The competition initiative undertaken as a result of your recent

meeting should run in parallel with the Financial Secretary's denationalisation programme, so that we avoid the criticism that we are in the business of selling monopolies. It is therefore appropriate that both the competition and the denationalisation initiatives are monitored regularly by E.

Residual shareholdings

We welcome the idea that the remaining shareholdings in companies that have been partly denationalised should be held by the Treasury, and that they should be used flexibly to assist with funding policy. They should not be part of the firm programme in such a way that they become used as an argument against making the initial sale of shares in a new target company for denationalisation.

I attach brief notes concerning the main privatisation candidates in the order in which they appear in the Treasury paper.

How long a gap should there be between legislation and sale?

Where legislation is planned for a year or more's time, the preparatory work on improving the accounts, management, profit and loss and balance sheet could be undertaken in parallel. This could then reduce the very long time allocated between legislation and sale.

Wider Share Ownership

The sale of shares in large corporations like BT requires innovation in the style of sale and in the means of reaching the buying public.

In order to capture the imagination and the cash of the general public, those selling BT shares will need to solve the questions of how a person not used to owning shares and not equipped with a stockbroker can buy and sell them with ease, and can be persuaded to do so. The Treasury are working on this: their conclusions and experiences should be drawn on as widely as possible when considering other candidates for sale.

The draft legislative programme to QL does not include any of the privatisation bills for 1984-85 needed for the programme. I have alerted your Private Office to this problem.

Should the timetable be accelerated?

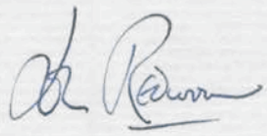
If you agree with the proposition about there being more scope for sales than the £2,000 million allocation in the timetable for 1984-85, and 1985-86, it will be easy to accommodate the speeding up envisaged in the attached notes. The sales of gas and electricity retailing (estimated around £120 million for gas), NCB ancillaries, Land Rover, the extra 49 per cent of ROF, and earlier sale of National Bus subsidiaries, could all be added without strain. The aim should be to bring as much forward into 1984-85 as possible to allow sale of part of gas in 1985-86.

The whole programme without firm decisions on the energy industries is like Hamlet without the Prince. The E(A) which considers the energy options should reconsider the complete timetable using a higher figure for total sales in 1984-85 and 1985-86 (eg £3,000 million).

The argument that the energy industries are unduly complex because they will need extensive regulation needs questioning. The aim should be to create better markets in the sale of gas and electricity to the grid, to reduce the need for regulation.

Follow-up

It is vital that the Financial Secretary should maintain oversight of the programme, and that there should be regular reports to E(A), if only to inform colleagues that targets are being hit. The programme should be a regular review item on a quarterly basis. John Moore has worked long and hard on this programme, and his efforts have made a substantial impact on the momentum of the policy.



JOHN REDWOOD

1. Royal Ordnance Factories. If their sale is to be delayed until autumn 1985, there is a strong case for selling the whole thing in one go.

2a. Wytch Farm. No comment.

2. British Gas Corporation. Privatisation of the whole on the BT model would be undesirable, as it would pose competition problems and would be an extremely large issue. We will have to await the option paper which has been much delayed. Our researches lead us to favour splitting the Gas Corporation into separate transmission and distribution companies; and at the same time injecting further competitive pressures by using the grid as a common carrier. Segregated distribution companies could be sold with the grid remaining as a public asset.

2b. Gas appliance retailing is a prime candidate for sale. BGC have consistently blocked this proposal over the years, but their time should now have run out.

3. British Nuclear Fuels Ltd. The paper to E(DL) should be speeded up, and should consider the political sensitivities in a reasoned way in view of recent nuclear problems.

4. Electricity. We await the E(A) paper. Our researches lead us to favour introducing competition in generation by splitting up the CEGB and selling some of the competitive units to different groups of private shareholders. This would have the great advantage of taking out of the ambit of Government and of the CEGB the task of forecasting future electricity demand, of building enormously expensive and complex power stations, and of dealing with the problems of over-capacity that we currently have. Energy Department arguments that over-capacity and the existence of a merit order prevent this option ignore the possibility of selling a package of differently ranked generating stations to each investment consortium. The price for the marginal stations would reflect the over-capacity, whilst the merit order could be preserved based on unit generation cost figures. There might be an argument for keeping the nuclear stations in the public sector, given the obvious sensitivities. The electricity showrooms should be sold as soon as possible.

5. Enterprise oil. No comment.

6. The programme for selling the non-mining subsidiaries of the NCB should be accelerated and should be the subject of an early paper to E(DL). NCB are still involved in the distribution of solid fuel, of heating appliances and building supplies and brick manufacture: turnover is around £400 million per annum in these activities.

7. The BL 1984 Corporate Plan which we have seen is still unsatisfactory. There is undue delay in segregating 4-wheel drive from Trucks, and undue delay in the sale of the 4-wheel drive business. Recent figures from Trucks demonstrate how hopeless it is to anticipate 4-wheel drive and Trucks together being a saleable proposition in the foreseeable future. Truck output has fallen steadily from 41,359 in 1975 to 11,000 in 1983.

We recommend the sale of the whole of Jaguar. We are delighted to see the proposal to sell 75 per cent of it as early as May 1984, and think it vital this timetable is adhered to. It is more important to sell 75 per cent as early as May 1984 than to allow delay to achieve the sale of 100 per cent.

We need a better review of the options concerning the eventual fate of the Austin-Rover Group. BL should come forward with serious options for introducing private capital and for reducing their cash requirements. We are happy with the Unipart proposal.

8. British Shipbuilders. The timetable on the warship-building sale is too relaxed. It would be desirable that a firm commitment should be made to sell warship-builders at the beginning of 1985 and no later. The original commitment to this decision was in the 1979 Manifesto, and we still await the result.

9. The British Steel activities in setting up separate Companies Act companies and gaining a clearer view of the extent of the losses in individual business areas is to be welcomed. What the Government should also be doing is encouraging the sale of more shares in those companies currently in 50-50 ownership between the public and private sectors set up under the various Phoenix ventures whenever this is possible. An early paper to E(DL) on the exact state of the various Phoenix companies, the state of segretation on the other activities, and the prospects for sale of shares in these areas is essential.

10. British Technology Group. It is important to stress the desirability of getting rid of INMOS within the next 6 months.

11. British Telecom. No comment.

12. Post Office and National Girobank. No comment.

13. The papers seem to be saying that there is no hope of Rolls Royce becoming profitable and independent within this Parliament, despite the Manifesto commitment. More serious consideration should therefore be given to further partnership, including risk-sharing and the injection of private capital.

14. Airports. A reasonable and well-intentioned approach.

15. British Airways. We agree that the improvement to BA's balance sheet which is necessary for sale should, where possible, come from the Group's own efforts. This could be helped by the transfer of some routes to BCal or other smaller airlines, assuming the Department of Transport can find a way of allowing CAA approval for the new operators.

16. British Rail Engineering. A paper should come to E(DL) following receipt of the Chairman's report in the middle of 1984.

17. Scottish Airports. No comment.

18. National Bus could be sold more quickly than envisaged. There is no need for a gap of more than a complete year between primary legislation and the sale. We support substantial deregulation and early progress on separate accounts for the 36 operating subsidiaries.

19. Sealink. Agreed.

20. Shorts. In view of the unsatisfactory financial and trading state of the Group, should the sale of the missile division be pursued?

21. Scottish Transport Group. No comment.

Prospective Disposals of Residual Shareholdings

Reduction of these holdings should be carried out whenever suitable market opportunities present themselves (as they do this month, with a buoyant Stock Market and no major issue). We are particularly keen to see HMG's holding in British Aerospace reduced, as this is a high-risk business, and think the Government should change its intention to hold 25 per cent.

Minor Candidates

Forestry Commission. Disposals since the Forestry Act 1981 of only £40 million out of total assets of over £1 billion are disappointing. The market response has not been very favourable, partly because the properties chosen have often been poor, and partly because of investor fears of a much larger sale under the Act later. The tax shelter available makes the assets even more attractive.

Mrs Linda Whetstone, a former Commissioner, believes management changes are necessary to ensure a purposeful approach to forestry management and disposal. The Forestry Commission does make a loss, needs an annual grant of £60 million, and shelters behind amenity arguments. Access to the countryside can, however, be guaranteed by covenants under new private owners.

E(DL) should consider:

(a) a more vigorous programme of disposals and better management of the existing resource; and

(b) the possibility of wholesale denationalisation with more commercial management

at an early opportunity.

Water. Should we not add the water industry to the list of those being monitored under this programme?

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Mr Middleton
Mr Bailey
Mr Kemp
Mr Wilding
Miss Kelley
Mr St Clair
Mr N J King
Mrs Jutsum
Parliamentary Clerk
Mr M E Corcoran

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Kitcatt
Mr Pearce
Mr Judd
Mr Scholar
Mr Rayner
Mr St Clair

Rt Hon Viscount Whitelaw CH MC MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

16 December 1983

Dear Lord President,

PUBLIC SERVICES (TRANSFER OF FUNCTIONS) BILL

Following my letter of 28 June it was agreed that officials should prepare a document for discussion with the European Commision about our proposed legislation. As the Law Officers have advised, there is no certainty that the Commission can be convinced, but the attached memorandum has been prepared and agreed among the lawyers and departments. We have also taken detailed advice from UKREP on handling. I propose that it can now be handed over to the Commission, and that we continue to press ahead with the preparations.

Given the need for discussions in Brussels and later with the trade unions, I think it is now impossible that the Bill can be drafted in time to be introduced in the current Parliamentary Session. This is a pity but, as it happens, the most important cases to which it would have been relevant have been dealt with by other means. I propose therefore that I should seek a place for it in the 1984-85 Session, provisionally.

Meanwhile, it would be valuable to have an assessment from colleages on the transfers from their departments planned over the next few years for which the enacting of the Bill in the 1984-85 Session is thought to be necessary. Given that much contracting-out is excluded anyway, and given that we can cope with the larger cases by individual legislation - as we have been doing - we are concerned mainly with the smaller cases which are legally regarded as transfers of undertakings and particularly those of them which may involve variation in terms of service including pensions. Given the way we are currently making good progress without legislation it may turn out that the number of cases for which the Bill would be needed has been considerably reduced. I should be grateful if all colleagues with potential candidates could let me have their assessment.

CONFIDENTIAL

I am sending copies of this to the other members of H and to other colleagues in charge of departments. I am also sending it to the recipients of John Biffen's letter to me of 28 November and I hope John Biffen will take it as a satisfactory reply to that letter.

+ Lord PRS on red

Yours sincerely

PR

for PETER REES
(approved by the Chief Secretary & signed - his absence)

Privatsachen

cc NO

16.1.84

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

PRIME MINISTER

E(A) PRIVATISATION REVIEW

You may like to have an advance copy of my Memorandum to E(A) Committee on Competition and Privatisation (attached). As you will see, it covers the Financial Secretary's report on the individual privatisation exercises following his recent bilateral discussions with sponsor Ministers, plus a chart which shows the main components of the privatisation programme for the lifetime of this Parliament.

2. All this represents useful progress. We now have clearly set out the shape of the prospective privatisation programme for future years and the implications for the legislative timetable and capital markets. You will also see from my covering Memorandum my proposal that, in the future, all residual shareholdings should be held by the Treasury. This will become particularly important as the privatisation programme proceeds; we must counteract the temptation for sponsor Departments to retain shareholdings in order to influence privatised companies' future activities.

3. I doubt that the E(A) meeting which will consider this Memorandum will be able usefully to discuss detailed issues concerning individual privatisation candidates. Rather, I hope that we can obtain unqualified endorsement for the overall programme. Detailed issues will need to be dealt with separately over the coming months. However, you may like to be forewarned

of one or two problem areas which the Financial Secretary has uncovered in discussion:

(a) British Leyland We are concerned at BL's proposals to dispose of only 75 per cent of Jaguar in May and of only 60 per cent of Unipart and then not until next year. The Financial Secretary will shortly be meeting DTI Ministers again to see what can be done.

(b) Royal Ordnance Factories The generally agreed aim is for incorporation in October followed by flotation in autumn 1985. The Secretary of State for Defence assures us that his recently announced intention to reorganise the ROFs structure into a holding company with four subsidiaries will not jeopardise this timescale. But it will undoubtedly put it under more pressure.

(c) Gas and Electricity Although privatisation may still be some time off, the next few months will be critical. We must ensure that discussion in E(A) next month leads to a thorough review of the options and the setting of a firm timetable for action.

NL

(N.L.)
16 January 1984

PART 8 ends:-

DB to PM 29 Dec. 1983

PART 9 begins:-

Ch/Ex to PM + att 16 Jan 1984

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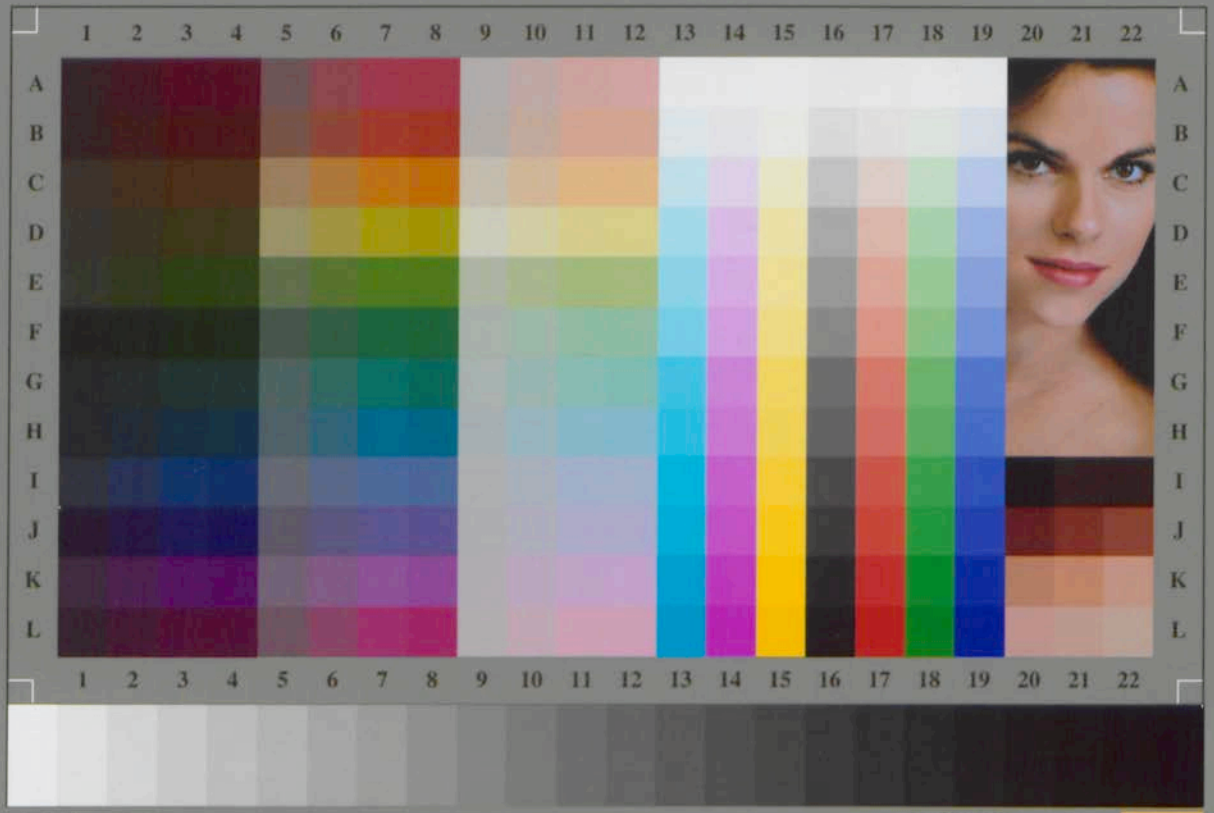
C M Y



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