

Subject file
Econ 451 - May 79 - Pepper Mths.

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Energy : ANOC

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND MR. GORDON PEPPER
at 11.45 A.M. ON WEDNESDAY 4 JULY

The following are the main points which came up in discussion.

I. Asset Disposals

The Prime Minister asked Mr. Pepper for his views on the sale of BP shares. She was particularly worried about the timing of the sale, and whether it would be right to sell any shares outside the United Kingdom. She had earlier taken the view that all of the sale should be in the United Kingdom in order to mop up liquidity and thus have the greater impact on the money supply. But the Treasury were arguing that some sales would be desirable abroad because this would allow a higher overall price, and in any case domestic sales would to some extent be a substitute for sales of gilts. Mr. Pepper said that there was likely to be some substitution between gilts and BP share purchases. But there was a trade-off between higher interest rates and selling these shares in the United Kingdom: the larger the share sale, the smaller the amount of gilts that would have to be sold, and therefore the lower the yield. It would be a mistake, in his view, to flood the London market with, say, £1 billion of BP shares - this would only depress the price. There were various methods of undertaking the sale - for example the market could be "tapped" continuously over an 18 month period rather than in one or two tranches. However, this was a highly technical matter and in any case an extension of the sale over 18 months would not meet the Government's funding requirement. The Prime Minister commented that from a political standpoint it would be better to sell the shares in the United Kingdom, and she still felt it would be better on money supply grounds. However, she understood that, even if the sale did take place entirely in the London market, foreigners would still be able to make purchases. Perhaps a preference should be given in the first place to United Kingdom nationals. Mr. Pepper said that this would not stop foreigners from buying the shares, because a secondary market would quickly develop. He cited the example of the BP sale in 1976: many of the shares which had been sold in

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New York had subsequently been bought by United Kingdom institutions. Mr. Pepper went on to say that Mr. Tom Quinn would be a good person to advise the Government on the details of the sale, although he was sure that the Government was already taking advice from the Merchant Banks.