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

*By*

5 August 1980

*Geo* *Geoffrey*

DENATIONALISATION OF THE NFC

We have already spoken about the discussion of my proposals for the National Freight Corporation at E(DL) earlier today, and no doubt John Biffen will also have put you in the picture.

There is little I can usefully add to the arguments that have already been adduced for early incorporation in this particular case, and which received strong support at E(DL) this morning. The prospects of a successful sale next year are real but finely balanced, and a little help at this stage could make all the difference between success and failure. I believe that it is politically important that we should be able to show some tangible progress with our privatisation policy and the NFC presents a good opportunity for doing so in the way I am proposing. But there are two further factors, which I believe are unique to the NFC, and which constitute additional reasons for making the changes sooner rather than later.

First, there is the problem of the Board which, with no full-time executive member, is not plausible in the eyes of the City. I must clearly put that right as soon as I can.

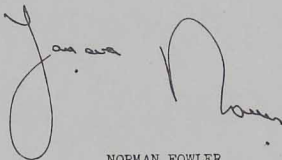
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Secondly, there is the problem of the growing pension deficiencies. If we do not seize the opportunity, which could be short-lived, to get rid of this liability by means of an outright sale then we will eventually have to tackle it some other way. History suggests this could be very costly.

I am, as you know, anxious to clear the way for these changes with a statement to the House before the recess. My officials are already in touch with yours about the details of a possible written answer (a draft of which is enclosed) which I would like to be able to make on Thursday. I very much hope you can agree that the way is now clear for me to go ahead on these lines.

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

A handwritten signature in dark ink, appearing to read 'Norman Fowler', written in a cursive style. The signature is positioned above the printed name.

NORMAN FOWLER

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~~THE~~ DRAFT 5 AUGUST 1980

QUESTION: To ask the Minister of Transport what steps are being taken to prepare for the sale of the National Freight Corporation and if he will make a statement.

DRAFT ANSWER: I intend to transfer the National Freight Corporation to the private sector at the earliest practicable date. For a number of reasons, and in particular the need to complete a full actuarial assessment of the Corporation's pension funds, I am advised that the earliest a flotation would be practicable is in the early part of 1981.

To this end I intend, with the agreement of my Rt hon Friend the Chancellor of the Exchequer, to make an order under Section 45 of the Transport Act 1980 appointing a day at the beginning of October for the transfer of the undertaking of the Corporation to the National Freight Company Limited, which was formed and registered for this purpose on 30 June 1980, and also for the simultaneous dissolution of the National Freight Corporation.

By removing the constraints of nationalised status under the Transport Act 1968, this step will enable the NFC to make the most of the wider commercial opportunities that will be available to them as a company with widely drawn memorandum and articles of association. While the company remains wholly in Government ownership I shall of course, continue to exercise financial controls similar to those which now apply to the Corporation. I have no doubt that this change to ~~the~~ company status is the surest way to safeguard the future prosperity of the undertaking as a whole, and of its employees.

Whilst the exact timing of the sale must depend on market conditions, my present intention is to offer the shares to the public in the early part of 1981. An interim period of operation as a limited company before flotation will enable the new Board, their managers and workforce to adjust to the new conditions, and will also assist potential investors to assess their performance.

I have also concluded that it would be wrong to burden the new company with fixed debt to the Government. The outstanding commencing capital debt of the Corporation amounts to £50.4m and subsequent borrowing from the National Loans Fund to £49.6m (details are shown in the Annexed schedule). These debts will, under the provisions of section 45(4) of the Act be extinguished immediately before the appointed day. I do not propose to require the company to assume any corresponding amount of debt.

Under section 46 of the Transport Act 1980 I shall require the National Freight Company Limited, as successor to the Corporation, to issue to me an appropriate number of ordinary shares, credited as fully paid up. The immediate effect will be to relieve the Board from the need to <sup>s</sup>et aside money to meet interest at the rate of approximately £9m per annum. I will expect the Board, while the company remains wholly owned by the Government, to use this resource to improve the financial position of the new company by reducing its bank and other borrowings from the private sector.

This loss of interest to the Exchequer should in part be reflected by an enhanced price for the shares when these come to be sold. I am satisfied that any eventual net loss of funds to the

Exchequer is justified by the need to provide a firm basis for a successful issue of shares to the public.

I will be announcing further details of the arrangements for these changes in due course.

10 AUG 1980

