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E(DL)(79) 2nd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

MINUTES of a Meeting held in the Small Ministerial Conference Room, House of Commons on WEDNESDAY 20 JUNE 1979 at 4.30 pm

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PRESENT

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
(In the Chair)

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

Mr Nigel Lawson MP
Financial Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon James Mackay QC
Lord Advocate

The Hon Nicholas Ridley MP
Minister of State
Foreign and Commonwealth Office

SECRETARIAT

Mr G D Miles
Mr A S D Whybrow

CONTENTS

SECRET

1. DISPOSAL OF BNOC AND BGC ASSETS

The Sub-Committee considered the disposal of assets in the British National Oil Corporation (BNOC) and the British Gas Corporation (BGC).

THE SECRETARY OF STATE FOR ENERGY said that the Chancellor of the Exchequer's budget arithmetic assumed that at least £200 million could be raised from disposals of BNOC and BGC assets in the current financial year. He would be putting a paper to the appropriate Ministerial Committee in about ten days on future policy towards BNOC. The final decisions on this subject might need to be taken by Cabinet. His paper would contain proposals for raising the £200 million from sales of BNOC assets, but the decision as to whether he could become committed to those sales was one for colleagues to take in the context of their wider policy decisions about BNOC. If his colleagues agreed to the sales, legislation would be required. He suggested that, in the interests of speed, the necessary provisions might be incorporated in the Industry Bill. There was a balance to be struck between on the one hand the desirability of early sales, and on the other the need for security of our oil supplies (which would not however in his view be seriously affected by the proposed sales) and of leaving BNOC with enough assets to make a success of privatisation at a later date. He had noted the Attorney-General's advice that he had the legal powers to direct the BGC to dispose of their Wytch Farm oilfield or other oil assets roughly equivalent in value, but to do this would mean a major row with the BGC Board. BGC had already made a substantial contribution to the reduction of the Public Sector Borrowing Requirement (PSBR) and lack of co-operation by the Board could hamper the progress he wished to make towards a mixed capital structure for the corporation. He would therefore argue against making such a direction to BGC if the question arose.

In discussion, it was argued that the Government should be careful not to jeopardise the longer term privatisation of BNOC by selling too many of its assets in the short term, especially as the price which might be obtained for them now, on what would inevitably be a cautious assessment of their worth, might be well below their value in two or three years' time. It was conceivable that, in the current state of the market, BNOC and BGC could make the required contribution to the reduction of the PSBR by borrowing on the open market without Government guarantees. On the other hand, it was argued that the BNOC assets which it was proposed to sell represented the assets they had acquired unexpectedly from the Burmah Oil Company, and that BNOC would still have been an attractive investment for the private sector without this windfall.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion, said that his budget arithmetic required at least £200 million to be provided by sales of BNOC and/or BGC assets. The Sub-Committee had noted that the Secretary of State for Energy would be putting a paper on the future of BNOC to the appropriate Ministerial Committee in about ten days' time, and that this paper would contain proposals for raising the money through sales of BNOC assets, including the need for legislative cover. He would be willing to consider alternative ways of raising the money if the Secretary of State for Energy wished to propose them.

The Sub-Committee -

Took note, with approval, of the Chancellor of the Exchequer's summing up of their discussion, and invited the Secretary of State for Energy to be guided accordingly.

2. DISPOSAL OF BP SHARES AND NEB HOLDINGS

The Sub-Committee considered a memorandum by the Financial Secretary, Treasury (E(DL)(79) 3) putting forward proposals for the method of disposal of part of the Government's shareholding in British Petroleum (BP) and reporting progress towards decisions on the sale of some of the holdings of the National Enterprise Board (NEB).

i. NEB holdings

THE FINANCIAL SECRETARY, TREASURY, said that most of the £100 million which it was planned to raise from the sale of NEB holdings could be achieved by sales of quoted shares which could be quite straightforward to offer. However, the method of sale would need to be considered on its merits in each case, having regard to the capital structure and present ownership of the company concerned. In some cases the best price might be achieved by placing the shares with another company, for example sale to the parent company in the case of the Brown Boveri Kent holding.

THE SECRETARY OF STATE FOR INDUSTRY said that he would be putting a paper on the NEB to his colleagues in about two weeks. He would refer to the disposal options mentioned by the Financial Secretary and also to other possible options such as disposing of some shares in a company be placement and the rest by a public offer. He would welcome any suggestions his colleagues wished to make at this stage about methods of disposal. Legislation would be necessary. The target date for introduction had slipped, but he still expected to be able to make the disposals this financial year.

In discussion, it was argued that the disposals should include provision for the establishment of a Trust to lend money to employees of the companies concerned to buy shares. There should also be preference for small applicants, and it might be worth requiring a declaration that the applicant was not making multiple applications. Similarly, at least with some disposals, it might be worth requiring a declaration that the applicant was not acting on behalf of a foreign owner. On the other hand, it was argued that neither declaration would be enforce-able in practice and that both would be criticised for that reason in the Press. There was also a potential conflict between achieving the widest possible share ownership and achieving the best possible sale prices for the shares.

THE CHANCELLOR OF THE EXCHEQUER, summing up this part of the discussion, said that the Sub-Committee noted that the Secretary of State for Industry would be putting a paper on the NEB to his colleagues shortly. There was a balance to be struck between achieving wider share ownership and achieving the best possible price, on which the Secretary of State for Industry should consult the Financial Secretary, Treasury, before circulating his paper.

The Sub-Committee -

1. Took note, with approval, of the Chancellor of the Exchequer's summing up of their discussion, and invited the Secretary of State for Industry to be guided accordingly.

ii. Disposal of BP shares

THE FINANCIAL SECRETARY, TREASURY, said that the Chancellor of the Exchequer's budget statement had announced sales of public assets in the current financial year amounting to £1 billion, and had specified that the biggest contribution to this total would come from the sale of a further part of the Government's shareholding in BP. The proposals he was now putting forward for the method of disposal were designed to meet not only the short term objective of contributing to a reduction of the Public Sector Borrowing Requirement (PSBR) but also to the longer term objective of promoting the widest possible participation by the people in the ownership of British industry. He proposed that the Government should sell 16 per cent of the shares in BP, thus reducing the combined Government and Bank of England holdings from 51 per cent to 35 per cent. To encourage wider share ownership, he proposed that the terms of the offer should give preference to small shareholders (which in practice would have to mean giving preference to small applicants) and to employees of the company. These two groups had received preferential treatment in the previous Administration's sale of shares in 1977, as had pension funds, but he did not recommend that pension funds should get preferential treatment this time. Nor did he recommend that existing shareholders should receive preferential treatment, since by definition sales to them could not widen ownership, and in any case many of them were large institutions. He recommended that a minority of the shares, perhaps 20 per cent or 25 per cent, should be sold abroad in New York and possibly also in a European centre such as Frankfurt. This method of disposal was expected to increase the proceeds of the whole sale by as much as 3-5 per cent. As to the form of the issue, there was a choice between an offer at a fixed price and an invitation to tender. He recommended that the offer should be at a fixed price, partly because this made it easier to give preference to certain classes of applicants, but mainly

because the Bank of England had advised that the best time for a sale would be before the end of July, and it was necessary to go for a fixed price sale in order to keep this timing option open. He recommended however that the timing of the sale should be decided by the Chancellor of the Exchequer in agreement with the Prime Minister.

In discussion, the following main points were made -

a. Amount of sale: it was suggested that the aim should be to achieve the monetary amount required by the budget arithmetic, rather than the sale of a particular percentage of the shares. On the other hand, it was pointed out that the proposed sale of 16 per cent of the shares would leave a Government holding of approximately 15 per cent, plus a Bank of England holding of approximately 20 per cent which was the subject of a legal dispute. The holding of 15 per cent was the minimum consistent with the present arrangements for having two Government Directors on the Board, and 16 per cent was therefore the limit of what the Government could reasonably sell at this stage. The expected proceeds at current market prices were consistent with the Chancellor's budget arithmetic.

b. Preferences: it was generally agreed that preference should be given to employees and small applicants, but not to pension funds. There was some support for giving preference to existing stock holders and it was generally agreed that if the conventions of the Stock Exchange, either written or unwritten, required preference to be given to existing stock holders, these conventions should be respected. It was strongly argued that preference for employees should extend to the setting up of a trust fund, which would borrow from the private sector at fixed interest and lend money to the employees to help them buy shares. Against the point that this would cause delay, it was argued that the process of setting up a trust could be quite simple, and that it was extremely important to establish the principle of such a trust in the relatively uncontroversial context of the BP sale, so as to pave the way for similar trusts in more controversial disposals later.

c. Timing: it was argued that, in current market circumstances, the Government's best course might be to delay the sale for some time. The energy scene was changing fast and a sale now might be at a price which would look like a bargain in two years or so. The Government would also be criticised for allegedly jeopardising security of supply at a time when this was particularly important. The criticisms could be answered but the point would need careful presentation. It was also important to get the details right on matters such as employee preference, and the case for a quick sale was not strong enough to override this. On the other hand, it was argued that the Government was publicly committed to making a sale this year and that there was no realistic alternative way of meeting this year's budgetary requirements. During the year it might be that July would be the best time for the sale, and it was important to get on with preparation now so as to keep this option open - there was no need for a final decision about timing at this stage. Whatever decision was taken on timing, it would be important to stick to it - the worst case of all would be one in which the Government allowed the market to receive advance signals of its intention to sell at a particular time and then changed its mind.

d. Sales abroad: no dissent was expressed from the proposal to sell some of the shares abroad, provided that Ministers would be able to decide in advance on the proportion of shares to be sold in this way. It was argued that there was considerable advantage in selling some of the shares in a Common Market financial centre as well as in New York, and the suggestion of a sale in Frankfurt was welcomed on this basis.

e. Form of disposal: considerable support was expressed in principle for disposal by tender, which would mean that the sale took place at the market's own valuation of the shares. On the other hand, it was recognised that considerations both of the timing and of giving preference to specified groups of applicants pointed towards a fixed price offer.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion, said that several members of the Sub-Committee had expressed doubts about the sale of the BP shares. He would seek the Prime Minister's views on this issue, bearing in mind both the objections to an early sale and the fact that no alternative means had been suggested for meeting this year's budgetary needs. Subject to

the Prime Minister's views and to any further Ministerial discussion which might be needed as a result, the Sub-Committee had decided that the sale ought to cover 16 per cent of BP's shares, and that the Financial Secretary, Treasury, ought to proceed with preparations for the sale as fast as possible so as to keep open the option of making the sale in July. The Sub-Committee had agreed that preference should be given to employees of the company and to small applicants, but not to pension funds and not to existing share holders unless the conventions of the Stock Exchange required this. There had been a strong request for a trust fund to be set up to assist BP employees to buy shares in the company, and the Financial Secretary, Treasury, should explore the possibility of doing this in the time available with the company and the Bank of England. The Sub-Committee had agreed that a minority of the shares should be offered for sale in New York and in a European centre, possibly Frankfurt, subject to their agreeing in advance on the proportion of shares to be so offered. They had noted that the share offer would probably need to be at a fixed price, partly because of the timing constraint but particularly because of their wish to give preference to employees and small applicants. The Financial Secretary, Treasury, should now develop his proposals so far as was possible without taking the consultation into the private banking sector, and should seek the Sub-Committee's approval of them before any such consultations were started.

The Sub-Committee -

2. Took note, with approval, of the Chancellor of the Exchequer's summing up of this part of their discussion, and invited the Financial Secretary, Treasury, to be guided accordingly.

Cabinet Office

21 June 1979