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E(DL)(79) 3rd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON DISPOSAL OF PUBLIC ASSETS

MINUTES of a Meeting held in the Prime Minister's Room, House of Commons on THURSDAY 5 JULY 1979 at 5.15 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

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

Mr Nigel Lawson MP
Financial Secretary
Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Sir Michael Havers QC MP
Attorney General

Sir Kenneth Berrill
Head of the Central Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr P Mountfield
Mr A S D Whybrow

SUBJECT

DISPOSAL OF PUBLIC ASSETS

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DISPOSAL OF PUBLIC ASSETS

The Sub-Committee's discussion and the conclusions reached are recorded separately.

Cabinet Office
6 July 1979

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

LIMITED CIRCULATION ANNEX

E(DL)(79) 3rd Meeting Minutes
THURSDAY 5 JULY 1979 at 5.15 pm

DISPOSAL OF PUBLIC ASSETS

The Committee had before them a memorandum by the Financial Secretary to the Treasury (E(DL)(79) 5) about ways in which the Government might raise £1 billion through sales of state-owned assets in the current financial year; a note by the Secretary of State for Energy (E(DL)(79) 6) making proposals for future arrangements for state involvement in the oil industry; a note by the Secretary of State for Energy (E(DL)(79) 7) about the possible sale of the upstream assets of the British National Oil Corporation (BNOC) to British Petroleum (BP); and a memorandum by the Secretary of State for Trade (E(DL)(79) 4) proposing changes in the financing of the British Airways.

THE FINANCIAL SECRETARY, TREASURY said that the Chancellor of the Exchequer had announced in his budget statement that the proceed of sales of state owned assets in the current financial year would amount to some £1 billion, and that the biggest contribution to this total would come from the sale of a further part of the Government's stockholding in BP. The Prime Minister had expressed concern about the scale and timing of the proposed sale of BP stock, and he had accordingly reviewed the other possibilities for disposal this year with the aim of keeping the BP stock sale to the minimum. He had concluded that the Government should be able to rely on £180 million from the sale of non-energy assets (£100 million from the disposal of certain holdings of the National Enterprise Board (NEB), £30 million from disposals of land and other fixed assets from public sector bodies which were the responsibility of the Secretary of State for the Environment, £20-25 million from the sale of the Treasury's chair in the Suez Finance Company, £15 million from disposals

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of British Steel Corporation assets, and perhaps £15 million net from the proceed of the Government's shares in the British Sugar Corporation and the Covent Garden Market Authorities Office block. There were a number of other possibilities for selling non-energy assets, which if they were all implemented would raise some hundreds of millions of pounds, though not necessarily in a form that would reduce the Public Sector borrowing requirements (PSBR). But in practic there seemed little chance of substantial receipts from any of these sources in 1979-80, and he had not therefore counted them towards the total for this year. The budget arithmetic assumed that at least £200 million should come from disposals of BNOC and British Gas Corporation (BGC) in the current financial year. He saw a strong case for directing BGC to sell their Wytch Farm oil field, which appeared possible within existing legislation and should raise £100 million. The Secretary of State for Energy's paper E(DL)(79) 6 looked at various disposals by BNOC, though legislation would be needed to enable the Secretary of State to direct them to dispose of these assets. Subject to that, it seemed reasonable to continue to rely on at least £200 million this financial year from the sale of BGC and/or BNOC assets. Taken together with the non-energy disposals, this gave a total of at least £380 million, leaving say £620 million still to be found. The simplest way of raising the sum would be the sale of part of the Government's share holding in B The only alternative to this which would raise enough money in the current financial year would be for BNOC to sell all their upstream assets to BP, a possibility which was considered in the Secretary of State for Energy's paper E(DL)(79) 7. If the Sub-Committee decided in favour of a sale of BP shares and wanted to keep open the option of the sale in late July or early August, a number of detailed decisions about the form of the sale would need to be taken at the present meeting. This would not mean an irrevocable commitment to an early sale, but would merely keep the option open. The sale could be put off at any time up to the announcement of the offer if for example the market turned sour. But if th detailed decisions were not taken at this meeting, it would probably not be practic to make the sale before the middle part of September.

In discussion of the sale of non-energy assets, the following main points were made -

a. Preparations for the sale of £100 million of NEB assets were in hand, subject to the inclusion of the necessary provisions in the Industry Bill due to be introduced soon after the Recess;

b. the expectation of £30 million this financial year from disposal of land and other fixed assets from bodies under the responsibility of the Secretary of State for the Environment was confirmed; in addition, the Secretary of State for the Environment was willing to provide a further £70 million by reducing this year's borrowing allocation for the New Town corporations by this amount unless they could raise the money through disposals. This device meant that a contribution of £70 million towards reducing the PSBR could be assured, though in practice only part might come from disposals and a remainder from a reduction in public expenditure;

c. there appeared to be no difficulty over the sale of Suez Canal Company shares but this was being checked;

d. the British Steel Corporation assets which it was proposed to sell were not parts of the main steel business and should present no serious difiiculties if the board themselves decided that the sale was in the Corporation's best interests. But if the board would not sell without a direction from the Secretary of State, there could be problems over the Secretary of State's power to make such a direction;

e. similarly the sale of the Covent Garden Market Authority's office building might require a direction which it might be outside the Minister of Agriculture's legal powers to make. The sale of British Sugar Corporation shares, although desirable, raised questions about the future structure of the British Sugar Industry, and it might therefore not be possible to make the sale this year;

f. the possibility of selling 49 per cent of the shares in the Radio Chemical Centre Ltd this financial year should be further investigated;

g. it seemed unlikely that changes in the financial structure of British Airways proposed by the Secretary of State for Trade in E(DL)(79) 4 could affect this year's PSBR, but they could have a substantial effect in future years, and there was therefore a case for enacting the necessarly legislation this year, by means of additions to the Civil Aviation Bill.

In discussion of the proposal to raise at least £200 million from sales of BGC and/or BNOC assets, it was noted that a direction to the BGC to dispose of their Wytch Farm Oil field, although possible under currency statutory powers would cause a row with the BGC board which could slow down progress towards the Government's major objective of introducing private capital into the BGC. It was suggested that the £200 million target could be achieved by selling BNOC's interests in the Viking Gas field and the Statfjord Oil field whose total value was in a range around £130 million and by taking credit for the increase in royalty income which could be expected if North Sea Oil prices rose in line with the increases recently agreed with the organisation of petroleum exporting countries OPEC amounting to £36 million in the second half of this year and for BNOC's reduced requirement for external finance which might save a further £20-40 million this year. Against this it was argued that revenue and financing gains could not be used to justify a shortfall on disposals. The possibility of selling other BNOC interests to make up the £200 million should be investigated. It was noted that BNOC's partners in various fields would have the right of first refusal to buy BNOC's share, in proportion to their current holdings. Sale to a British Company, in practice BP, would be greatly preferable and the Government might achieve this by pursuading BNOC's partners not to exercise their rights. Legislation would be necessary to enable the Secretary of State to direct BNOC to dispose of their holdings and this legislation should be prepared as a matter of urgency.

In discussion of ways of raising the £620 million it was argued that selling BNOC's upstream assets to BP would pre-empt policy decisions on the future of BNOC. A more gradual approach, taking account of all the options, would be better. On the other hand it was argued that the sale of BNOC assets to another British company on whatever scale would not have the same political significance as a sale of assets abroad. In relation to the proposed sale of BP shares, it was argued that what really mattered was not the absolute size of the PSBR but the Government's ability to finance it in a non-inflationary way. This depended on confidence, and a sale of BP shares could have an adverse effect on confidence, not least because there was a possibility of their price rising sharply over the next two years or so which meant that a sale now could be seen as imprudent. On the other hand, it was argued that the worst thing for confidence would be a PSBR significantly above the Chancellor's budget estimate. Although some factors, such as oil royalties were moving in our favour, we stood to lose from the OPEC price increases as a result of the consequential slowing down in world trade, and this would put a strain on the PSBR. Contrary to some press reports, there was

no reason to hope that we could have a much lower PSBR next year without further substantial public expenditure cuts. There was room for discussion about how the £1 billion target for disposals should be reached, but we could not afford a major shortfall.

In discussion of the detailed arrangements for any sale of BP shares, it was suggested that there could be some advantage in selling the BP shares in two separate tranches, the timing of each of be decided in the light of market conditions. It was also strongly argued that the sales should take place only in London with preference for United Kingdom purchasers, even though they would be able to re-sell abroad. Against the argument that either of these proposals would reduce the expected yield from the sale, it was suggested that, even if this had been true at the time of the 1977 disposal of BP shares, it was no longer likely to be true in the wake of the recent oil crisis.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee confirmed the Government's intention of realising £180 million through the sale of non-energy assets in the current financial year, preparation for sales including preparation of legislation where necessary should proceed as fast as possible. In addition, the Secretary of State for Trade should arrange to include in the Civil Aviation Bill clauses to enable private capital to be injected into British Airways, although it was noted that it might not be possible to raise money by this route in 1980-81. The Sub-Committee also accepted the Secretary of State for the Environment's offer to find a further £70 million from new town disposals or a reduction in their expenditure, subject to his agreeing the proposals in detail with the Financial Secretary, Treasury. They had decided that disposal of energy assets needed further consideration, and to this end she would chair a further meeting of the Sub-Committee in 10 days' time. The Sub-Committee recognised that by taking this decision, they were closing the door on any sale of any BP shares before the summer holidays. Before the next meeting, the Secretary of State for Energy should arrange to consult very privately with the Chairman of BP about two options: the possible purchase by BP of a number of public sector oil field interests, including the BGC on-shore field at Wytch Farm and the BNOC interests in Viking, Stratfjord and possibly Minian and as an alternative, the possible purchase by BP of all or most of BNOC's up-stream interests. In his discussions with Sir David Steel, the Secretary of State for Energy should cover the financial arrangements which BP would need to make in order to raise the purchase price. He should explore the possibility of BP raising a loan, some part of which would be convertible into equity, with the Government subscribing a proportion sufficient to preserve its 51 per cent controlling interest in BP. If necessary he should authorise Sir David Steel to consult very privately with a leading Merchant Banker approved by the Secretary of State for the purpose. The Sub-Committee would meet again under the Chancellor of the Exchequer's chairmanship to consider the remaining possibilities for disposals in 1979-80 and in subsequent years, including the details of the proposed changes in British Airways, noting that the scope for disposals in 1979-80 was limited by the availability of legislative time.

The Sub-Committee -

Took note, with approval of the Prime Minister's summing up of their discussion, and invited the Secretary of State for Energy to proceed accordingly.

6 July 1979