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pages for K  
on 11 Sept.



PRIME MINISTER

The Chancellor's comments  
on BNOC disposals. Mr  
Callaghan's letter to you on  
this is also in the box.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

7 September, 1979

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*MA  
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Dear Sir,

DISPOSALS AND THE PUBLIC SECTOR  
BORROWING REQUIREMENT 1979-80

The Chancellor of the Exchequer has seen your letter of 5th September about the Prime Minister's conversation with the Secretary of State for Energy on the asset disposal programme. You reported the Prime Minister's view that provided that the BNOC and BGC sales programme was underway by March 1980, and subject to the Chancellor's views, she thought that it might be acceptable for market confidence and the Government's monetary objectives, if the completion of the £400m programme slipped two or three months into 1980-81.

The Chancellor has since discussed this with the Secretary of State for Energy and he well recognises the Secretary of State's difficulties in these matters. Equally, however, to permit the degree of flexibility suggested would, of course, mean that the sale proceeds were not received until 1980-81 with the inevitable result that the Public Sector Borrowing Requirement for 1979-80 would be higher by £400m.

The Chancellor must regard any failure to meet the Government's Budget commitments on the PSBR as a very serious matter indeed, going right to the heart of the Government's monetary and fiscal stance which is central to its strategy. Both the PSBR and the money supply are currently running high and there is no scope for relaxation if the targets are to be met. In particular, there is nothing in the present situation which provides any grounds for hoping that the Government could meet its PSBR objectives without the full £1bn contribution from asset sales. The Chancellor also believes that credibility in the Government's determination to carry through its monetary and fiscal programme would be put in serious jeopardy if the PSBR target

/announced

T. Lankester, Esq.,



announced in the Budget was missed because of the Government's own failure to carry through decisions already announced. The public conclusion would inevitably be that having failed to meet a PSBR target once, the Government could well do so again. Such a conclusion could seriously dissipate the hard won confidence built up during the last few months.

But as I said earlier, the Chancellor does indeed recognise the Secretary of State's difficulties and therefore he has asked his officials to use their utmost ingenuity to see whether a way can be found of reconciling the conflicting interests of meeting this year's PSBR target and delaying a £400m sale of BNOC/BGC assets until early in 1980-81. Officials have already met with BNOC and are considering in particular a possibility involving advance payments for oil contracts. It is by no means clear that this could be presented as a credible reduction to the PSBR (as distinct from a financing transaction). Even if it could, the arrangement might well create problems if the OPEC countries sought to adopt similar arrangements for their contracts. The Chancellor will report his conclusions to E Committee on Tuesday.

I am sending a copy of this letter to Bill Burroughs (Department of Energy), to George Walden (FCO) in view of the possible consequences for relationships with OPEC of any BNOC deal of the sort described in paragraph 4 above and to Martin Vile (Cabinet Office).

*Yours ever,*

*A.M.W. Battishill*

(A.M.W. BATTISHILL)



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