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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

At the meeting of the Sub-Committee of the Economic Strategy Committee, on Disposal of Public Assets (E(DL)) on Wednesday afternoon, I undertook to colleagues that I would report to you on the present position regarding disposals in the current financial year.

2. In the Budget statement I said, following the line agreed in Cabinet on 31st May, that we intend to ensure that sales of public assets in the current financial year will amount to "some £1 billion" and that the biggest contribution to this total will come from sales of a further part of the holdings in BP. Although the statement left the content of the £1 billion deliberately vague if was envisaged that it would comprise:-

- £650m - BP shares (reducing our holding to 35 per cent including the 20 per cent disputed by Burmah)
- £100m - NEB holdings
- £30m - Land and property
- £200m+ - sales of BNOC or British Gas interests.

The commitment of principle was, of course, quite plain - and crucial to the Budget arithmetic.

3. The Secretary of State for Energy now argues that disposals from British Gas could only be achieved in the face of determined opposition from the Chairman, and feels that the policy changes we wish to see for BGC could best be achieved if we avoid a confrontation on this issue if at all possible. He would therefore look to BNOC for the contribution

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from his industries, but he has pointed out that legislation would be needed and that decisions have yet to be made on policies for BNO. He proposes therefore to include, in the paper which he hopes to bring forward to colleagues in the next couple of weeks, a discussion of the various possible options for achieving his contribution to the Budget commitment.

4. The Secretary of State for Industry is confident that NEB sales can contribute £100m. He will bring forward detailed proposals soon.

5. That leaves the main element of the commitment, as specifically identified in the Budget: the sales of BP shares. Several colleagues feel that this decision may have been endorsed in Cabinet with only limited information, and that subsequent developments in the oil supply situation could now call it into question. Although the size of our shareholding does not materially alter the security of oil supplies or the degree of Government control over company policy (since we have always stood well back from it), they feel that politically it might be difficult to explain a sale at this time. And they argue that the value of the shares may rise rapidly in the next year or two which could make the sale seem financially, as well as politically, imprudent.

6. I see some force in these arguments. But I am bound to emphasise too the strength of the political commitment which we entered into only last week to cut the PSBR by the medium of these sales. No alternative means of achieving the cut has been suggested to me.

7. If the BP sale is to take place colleagues in general feel (and I agree with this) that it should be organised so as to give as much preference as possible to employees, and small shareholders. The Financial Secretary is preparing a detailed scheme for handling the



sale if we decide to go ahead, and will take full account of these aims. He will also explore the possibility of a privately financed trust being set up to assist employees with loans to finance the purchase of shares. The Company itself have ideas for this which may fit our plans quite well.

9. There is a possible problem on timing. The Bank advise that it may well be desirable to make the sale during July to obtain the best price, and that leaves little time for preparation. If you have any strong feeling, in view of the reservations of some colleagues, that we should re-examine the arguments for the BP sale we need to do so soon. If on the other hand you feel, as I do, that we are firmly committed and that the decision should stand, the detail of the sale procedures could be looked at again in E(DL).

9. I should be grateful to know how you would like us to proceed. I am copying this letter to all Cabinet colleagues, the Minister of Transport, the Attorney General, the Lord Advocate, and Sir John Hunt.

A handwritten signature in dark ink, appearing to be "G.H.", written in a cursive style.

(G.H.)

22 June 1979

22 JUN 1979



CONDENSATOR