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E(DL)(79) 7th 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 Conference  
Room A, Cabinet Office on  
WEDNESDAY 17 OCTOBER 1979 at 6.00 pm

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 John Nott MP  
Secretary of State for Trade

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon Norman Fowler MP  
Minister of Transport  
(Item 1)

SECRETARIAT

Mr P Mountfield  
Mr A S D Whybrow

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1. PRIVATISATION OF BRITISH AEROSPACE, BRITISH AIRWAYS. AND THE NATIONAL FREIGHT CORPORATION

The Sub-Committee had before them a note by the Secretaries (E(DL)(79) 16) reporting on work by officials on certain unresolved issues concerning the privatisation of British Aerospace (BAe), British Airways (BA) and the National Freight Corporation (NFC).

The substance of the note by the Secretaries was as follows. On Government guarantees, the Sub-Committee had asked at its previous meeting (E(DL)(79) 6th Meeting) that officials should try to find a common approach which would suit all three undertakings. Officials had tried to identify such an approach, but had reluctantly concluded that it was not practicable. They therefore recommended that Ministers should be prepared to adopt a different approach in each case, which would mean that each sponsoring Minister could go ahead with the proposals which he had already put forward. On the question of the Government's financial relations with the wholly-owned successor companies, the sponsoring Ministers had proposed that there should be no power to advance loans or guarantees to the British Airways or National Freight companies, but that the Government should have such powers in respect of the successor company to BAe so long as it was wholly owned by the Government. This difference reflected the possibility that the Government might need to maintain, possibly for some time, a wholly-owned aircraft company if the present business of BAe were split, and the Dynamics business successfully floated off as a separate company. Officials saw no difficulty in justifying this difference, and recommended Ministers to proceed on the separate lines proposed for BA and the NFC on the one hand, and for BAe on the other. On the question of power for the Government to acquire equity and other stock, officials recommended that in the successor companies to both BAe and BA the Government should be able to subscribe for rights issues and for convertible (but not unconvertible) loan stock. The sponsoring Ministers had proposed that the Government should have an additional power to acquire shares in the successor companies to BAe and BA, though not in the successor company to the NFC where the eventual intention was to dispose of all the shares. Officials had not been able to reach an agreed recommendation on this point, and asked Ministers to decide, firstly

whether there was a need for a power to purchase shares in addition to the proposed power to subscribe for rights issues and convertible loans, and secondly, if so, whether it was necessary or appropriate to limit the Government's shareholding either to the level held by Government immediately after privatisation (as had been proposed for BA) or to limit such that the Government could maintain, but never increase, its percentage shareholding at any time (as had been proposed for BAe).

THE CHANCELLOR OF THE EXCHEQUER summing up a brief discussion, said that on the question of Government guarantees, the Sub-Committee agreed that different approaches were acceptable for BAe, BA and the NFC. Each of the Ministers concerned should proceed on the basis of his present proposals, and the Government would be prepared to justify the differences in treatment between the three undertakings. On the question of the Government's financial relations with the wholly-owned successor companies, the Sub-Committee agreed that the Government should take powers to advance loans and guarantees to the wholly-owned successor to BAe, but not to the successors to BA and the NFC. On the question of powers for the Government to acquire equity and other stock, the Sub-Committee had noted that the Minister of Transport did not intend to take powers either to subscribe for rights issues or loan stock or to acquire shares in the successor company to the NFC, and they were content for him to proceed on that basis. They had agreed that the Government should take powers to subscribe for rights issues and for convertible (but not unconvertible) loan stock in the successor companies to BAe and BA, and powers to acquire shares in those companies. They had decided that the Government's shareholding should be subject to an upper limit, but were content to accept different limits for the two industries. They therefore endorsed both the Secretary of State for Industry's proposal that the limit for the successor company to BAe should be set so that the Government could maintain but never increase its percentage shareholding at any one time, and the Secretary of State for Trade's proposal that the limit for the successor company to BA should be

the Government's percentage shareholding immediately after privatisation. However, the difference of approach on this point should be kept under review and the Sub-Committee's decision should not be taken to preclude harmonisation of the two approaches on one or other basis if this seemed desirable during the passage of the two Bills.

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 Industry, the Secretary of State for Trade, and the Minister of Transport to be guided accordingly.

## 2. PRIVATISATION OF BRITISH AEROSPACE: TAXATION ASPECTS

The Sub-Committee had before them a letter dated 12 October 1979 from the Minister of State for Industry to the Financial Secretary, Treasury, and a reply dated 16 October 1979 from the Private Secretary to the Financial Secretary, Treasury, to the Private Secretary to the Minister of State for Industry, about the legislative provisions for the taxation aspects of the privatisation of British Aerospace (BAe).

THE SECRETARY OF STATE FOR INDUSTRY said that the only opportunities for flotation of shares in BAe Limited in the financial year 1980-81 would be in June and November/December 1980. The merchant bankers advising on the disposal had advised that it was essential that the legislation which would be needed to deal with the tax position of the new company should be enacted before the company was put for sale. Ideally, he would have preferred this legislation to go into a Finance Bill. However, the 1980 Finance Bill would not be enacted in time for a June flotation, and in order to keep open the possibility of such a flotation he had considered that the right course would be to put the legislation in the Aerospace Bill. However, he had noted the Financial Secretary, Treasury's objections to this course. It would in any case be necessary for officials to give further consideration to precisely what legislative provision would be needed. When the work had been completed he would go back to the merchant bankers and ask if they still considered it essential to have the legislation enacted before the flotation. It might be that in the light of the further work the merchant bankers would find it possible to change their advice, but it was also possible that they would not. He considered that the option of including the necessary provisions in the Aerospace Bill should be kept open for the time being so that a final decision could be taken in the light of the merchant bankers' further advice.

THE CHANCELLOR OF THE EXCHEQUER, summing up a brief discussion, said that the Sub-Committee agreed not to take any decision at this stage as to whether the taxation provisions for British Aerospace Limited should be included in the Aerospace Bill or in next year's Finance Bill.

The Sub-Committee -

Took note, with approval, of the Chancellor of the Exchequer's summing up of their discussion.