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Ref. A09900

PRIME MINISTER

Disposal of Assets

(E(DL)(79) 5)

BACKGROUND

(Item 2) You decided to take over the chair of this meeting of the Sub-Committee yourself. (Mr. Lankester's letter of 25th June.) This followed from an unresolved discussion about the "some £1 billion" of asset sales which the Chancellor promised in the Budget Speech to find this year. Your concern was mainly about the timing and the extent of the proposed sale of BP shares. At the same time, the Secretary of State for Energy was concerned about the proposed disposals of BGC and BNOC assets. He has since circulated a major paper (E(DL)(79) 6) about the future of BNOC. A substantive discussion of oil policy, including the role of BNOC, will be necessary at a later stage but to pursue it now would be to complicate an already complex discussion. Tomorrow's meeting could therefore be confined to the possibility of disposals without damaging the Government's oil policy objectives. For that reason, I have placed the Financial Secretary's paper first on the agenda, and suggest you use it as a framework for the meeting. You will need to look at Mr. Howell's papers against that background.

You will remember that the Chancellor's Budget target came down from disposals of £1.2 billion to £1 billion, largely because of problems over the BGC and the BNOC assets. The doubts about the BP sale were voiced subsequently, after the Chancellor had made it clear that BP would account for a substantial part of his total. A number of other Ministers have suggested alternatives, but none of these add up, in total, to anything like the sum required. To achieve that target will require the sale of a large slice of the present BP holding, or alternatively the sale of most of the BNOC assets to BP (dealt with in the second paper from the Secretary of State for Energy). The arithmetic is set out in an Annex to this brief.

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HANDLING

You will want to start by inviting the Financial Secretary to introduce his paper. It falls into two halves: the arithmetic of the £1,000 million (see Annex again) and the mechanics of the BP sale; and so might the discussion.

I. Options for raising £1,000 million

It will be best to run through the possibilities mentioned in paragraphs 2-8 and set out in more detail in Annex A. You will want to avoid becoming bogged down with those sales which cannot contribute to the 1979-80 PSBR.

(a) National Enterprise Board

The proposals are agreed: but the legislation may be difficult. It will form part of the Industry Bill. The Secretary of State hopes to introduce this in November and get Royal Assent by January. That in itself would be difficult, as QL recognised. But he has not even got policy clearance yet for the other parts of the Bill, some of which are quite controversial (especially those dealing with the regional activities of the NEB). If you score this £100 million therefore, you should make it clear to the Secretary of State that he must press ahead urgently with his legislative proposals.

(b) Suez Finance Company

No legislation needed. Sale this year cannot be guaranteed.

(c) British Sugar Corporation and Covent Garden Market Authority

Neither of these needs legislation. Some part of the proceeds would be needed to offset other expenditure by MAFF. But the Treasury are reckoning on £15 million being available for the disposals package.

(d) Land (paragraph 16 of Annex)

The Secretary of State for the Environment has promised £30 million firm (including the £20 million on New Towns mentioned in the letter of 2nd July from the Chancellor's office), without legislation. We know he has something else up his sleeve, but he has so far refused to specify what it is. (We think he wants to offer it in exchange for some modification of the BP deal.) This is very unsatisfactory: if he makes a

firm proposal at the meeting, you will want to insist that it is something which does not require legislation, or can be tacked on to legislation which will get Royal Assent in time to show results in 1979-80. Otherwise, it does not score in this package, however useful it may be for later years.

(e) British Steel Corporation

No problem - no legislation needed. 32 1.1

The remaining proposals are listed in Annex A, but none of them can produce savings in 1979-80. You may not want to waste much time on them. Points arising are:

(f) Cable and Wireless

The Treasury view is that this will not actually yield anything in the current year.

(g) British Airways

Mr. Nott raised this possibility with you two weeks ago. It requires legislation, for which there is no provision in the programme. (He is making a last-minute attempt to fit it in, and the Chancellor of the Duchy and the Chief Whip are resisting. There is a separate paper, E(DL)(79) 4, on this prospect: but it does not help in the present year unless the Chancellor of the Duchy and the Chief Whip relent. If after considering his paper (Item 4) the Sub-Committee did want to pursue this possibility, you would have to instruct that room be found for it in the programme, and that Mr. Nott should urgently seek policy clearance for his proposals. A further meeting of E(DL) under the Chancellor of the Exchequer could deal with those.

(h) British Aerospace

This too needs legislation, and there are important policy decisions not yet taken. It seems unwise to count on this in the present year.

(i) British Shipbuilders

This seems even more unlikely than British Aerospace, within the current year.

(j) Radio Chemical Centre

Unlikely to yield very much; together with the next item, £15 million at most.

(k) National Freight Corporation

The Treasury have not scored this one either: although the legislation could be available in time, it does not seem a sensible option and only yields about £15 million. We have not thought it necessary to invite the Minister of Transport for this item.

(l) British Rail

Again this requires legislation and could not be in place in the current year.

(m) Forestry Commission

Legislation again: no provision in the programme.

If the Financial Secretary's bids in paragraphs 2-6 are confirmed, he has now got about £180 million available, and needs a further £820 million. This can come only from sales of BNOC/BGC oilfield assets, and/or from the Government's stockholding in BP.

(n) BNOC and BGC

The Financial Secretary's bid is for £200 million from these two combined. The Secretary of State for Energy, in his own paper on BNOC, offers to find the £200 million, but only specifies two fields (Viking and Statfjord) which together he puts at a range of £80-£148 million. (The Treasury paper says £100-£130 million.) The Treasury suggest the BGC onshore oilfield at Wytch Farm (Dorset); this will yield perhaps £100 million. But the Secretary of State for Energy is reluctant to face the row with the BGC. Legal advice is that he has the powers to direct the Corporation to make this sale. If he is not prepared to do so, then he is driven back on finding the whole £200 million from BNOC, which he is only prepared to do "providing that the legislative difficulties can be overcome and that this is consistent with our overall decisions for the future of BNOC" (paragraph 18 of his paper, E(DL)(79) 6). You might tentatively score £200 million at this stage, and then come back to this option later in the meeting if necessary, following discussion of his paper at Item 2.

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(o) Sale of BNOG Assets to BP

This too is the subject of a separate paper - E(DL)(79) 7 (Item 3). The idea is to sell sufficient of the BNOG assets to yield about £750 million to BP, leaving a rump BNOG behind to deal with participation oil, manage any remaining equity interests, and (subject to discussion of the next paper) carry out any other functions assigned to it by Government. This is probably a second-best to the proposed sale of BP shares. You will want to defer a decision on this, too, until the Sub-Committee has taken the Secretary of State's paper, and then revert to this point at the end of the meeting.

At this point you might look at the legislative implications. None of the smaller items above looks especially attractive as an immediate option. The legislative programme, as you know, is already very crowded. But if you were forced to scrape the barrel, and include many of these in a disposals package, it would then be worth amalgamating them into an omnibus Bill and guillotining it through soon after the Recess. This would at least ensure that some sales would go through in the current financial year. If necessary you might ask the Financial Secretary to reconsider this idea (which he has previously rejected) and report to you on the possibility.

II. Sale of BP Shares

This is the main part of the paper, and the most difficult. You have already had some discussion with a few of the Ministers concerned. There are five points to establish at the beginning:

- (i) Sale of shares does not, of itself, affect Government control over BP, provided it retains the right to block an amendment of the Company's Articles. Technically that requires 25 per cent; in practice, 15 per cent will be enough.
- (ii) The Government and the Bank between them presently own 51 per cent, of which 20 per cent came from Burmah. We believe that any attempt to sell ex-Burmah shares would simply provoke Burmah to seek an injunction forbidding the sale, and that this would probably be allowed. So in practice there is only 35 per cent of the equity to play with. The Chancellor's proposals involve selling approximately 20 per cent. This would still leave enough to block any change in the control of the company.

- (iii) In practice, ownership of the shares have made little difference to Her Majesty's Government's control over BP: if anything, they are more difficult to deal with than Shell.
- (iv) Whatever the fine print says, there is no way in which the Government can stop the shares passing into foreign hands. They are widely traded internationally already. But this has nothing to do with the destination of BP's oil. This is much more dictated by their international trading commitments. Put bluntly, if we cannot control what BP does with its oil, no foreign owner is likely to do better.
- (v) As regards the future price of BP shares, the problem is one of timing. Some Ministers have argued that the Government would get a better price by deferring the sale. In the long term, that is probably true, as the world oil price moves up in real terms in the '80s. But in the short term, although oil shares have risen since the OPEC increase, the effect of that increase may be to slow down the world economy and weaken the market for oil. To defer the sale till next year would risk a lower price. And in any case the Chancellor's arithmetic requires a sale this year, unless an acceptable alternative can be found.

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Having established these points, there are really five questions to which the Committee should turn: do we sell the BP shares; how much do we sell; when; to whom; and how? All these points are carefully covered in the paper. The main point to watch is the need for an early decision: unless you can reach agreement virtually at this meeting (perhaps with one or two tiny loose ends left over for separate negotiation) we shall lose the July option altogether, and the price may turn against us.

Having covered the ground on BP, you may then want to turn to the other three papers on the agenda, to make sure that the other options have all been considered properly before attempting to sum up.

CONCLUSIONS

(To be recorded at the end of the meeting, after Items 1, 2, 3 and 4.)

This will depend very much on the way the meeting goes. If the decision is to proceed with the BP sale, then the conclusions might be:

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- (a) To note that, of the £1 billion sales announced in the Budget, £100 million will come from the disposals of NEB shares, and £30 million from disposals of public sector bodies under the Secretary of State for the Environment.
- (b) To agree that a further £50 million should be found if possible from sales of the Suez Finance Company, British Steel Corporation assets, and Government shares in the British Sugar Corporation and the Covent Garden Office Block.
- (c) That a further £200 million should be found, by whatever means the Secretary of State for Energy thinks best, from BGC and BNOG assets.
- (d) The balance of the £1 billion should be found by selling sufficient of the Government's stockholding in BP to reduce it to about 35 per cent (including the ex-Burmah 20 per cent), the timing to be decided between the Chancellor of the Exchequer and yourself.
- (e) That a proportion of the BP stocks should be offered for sale in New York and one other centre abroad; that preference should be given to BP employees and small investors; and that the BP proposal for United Kingdom employee participation should be pursued urgently between the company and the Treasury.
- (f) That the wider issues raised in the Secretary of State for Energy's paper on BNOG be considered at a later meeting of the Committee.
- (g) That E(DL) should consider further the issues raised in the paper by the Secretary of State for Trade on British Airways.

If the decision goes against the sale of the BP shares, or some part of it is modified, conclusions (d) and (e) might be replaced by:

- (h) EITHER that up to x per cent of the BP shareholdings should be sold, and that the balance of the £820 million should be found by the sale of BNOG assets to BP; OR that the whole of the £820 million or as much as possible should be found from the sale of BNOG assets to BP, if necessary leaving a shortfall on the target of £1,000 million.

And in addition, subject to the course of discussion, possibly:

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- (i) To agree that additional sales of assets in British Aerospace, etc. should be added to the list of disposals to produce the total of £1,000 million; and to invite the Financial Secretary, Treasury, to report to you urgently on the possibility of an omnibus Bill to give legislative authority for these disposals early after the Recess.

hu.

pp. JOHN HUNT

4th July, 1979

ANNEX

	£m
<u>1. Sales already agreed</u>	
NEB subsidiaries	100
Land and buildings (New Towns etc.)	30
British Steel	15
British Sugar	15 net
Covent Garden Market	
Suez Finance Company	20
	<hr/>
	180
Gap to be filled	820
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Total	1,000
 <u>2. Other possibilities in 1979-80</u>	
BGC - Wytch Farm	100
Either: BNOG - Viking	Say
BNOG - Statfjord	120-130
Other BNOG disposals	up to 200
Or: Sale of BNOG assets to BP	up to 750
Or: Sale of BP shares to public	about 620
 <u>3. Other possibilities, probably later</u>	
Suez Finance Company	20-25
Cable and Wireless (half)	100
British Airways (half)	150
British Aerospace (half)	100
British Shipbuilders	35 net
Radio Chemical Centre Ltd	
National Freight Corporation	less than 50
British Rail - Sealink etc.	25-50
Forestry Commission	?