Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4th March 1980

12 6/3

Dear Tim,

DISPOSALS PROGRAMME IN 1980-81

The Prime Minister will have seen recent exchanges of correspondence on the question of disposals in 1980-81.
.... I enclose the Chancellor's letter of 28 January to appropriate Ministers, and the reply from the Secretary of State for
.... Energy. Also enclosed for completeness are letters from other Ministers, though I doubt if you will wish to trouble the Prime Minister with them.

The Chancellor would very much like to discuss the question of disposals with the Prime Minister on the basis of the attached aide memoire. If this is convenient, you may like to put this on the agenda for their meeting on Thursday 6th March.

Yrs ever,

MH

M.A. HALL
Private Secretary

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DISPOSALS IN 1980/81

The forthcoming White Paper sets a target for disposals of public sector assets which would reduce the public sector borrowing requirement in 1980/81 at £½ billion. Progress towards meeting this target was reviewed in E(DL) on 19 December when it was noted that Ministers would need to bring forward urgently further proposals to make good the gap between reasonably firm plans and the published target.

2. The current state of play is set out in the table attached. The items in part (i) of the table are reasonably firm, although there is still some uncertainty about the precise figures, eg, in the case of British Aerospace, motorway service areas, the NEB and British Sugar Corporation shares. The remaining gap is therefore some £70-100 million: this assumes no certain benefit in 1980/81 from the sale of shares in Cable and Wireless and no contribution from asset disposals by the British Steel Corporation where proceeds are likely to be needed to offset trading losses. Similarly, uncertainty over the timing of legislation suggests that no credit should be taken for receipts from a sale of BNOC in 1980/81. The remaining possibilities so far considered - disposal of the Radiochemical Centre, of NCB's shares in Sankey or BGC's interest in the Wytch Farm oil field are set out in part (ii) of the table. Other possibilities mentioned have been some form of "mixed finance" for BGC and auctioning seventh round North Sea oil licenses.

3. All the last possibilities lie in the field of the Secretary of State for Energy and a significant contribution from him looks essential. Experience this year suggests that it would be prudent to plan for a figure of more than £100m to allow for slippage. The only candidate likely to secure a sufficient and certain contribution in 1980/81 is BGC's interest in the Wytch Farm oilfield. There are difficulties in this course set out in the Annex attached, but they do not appear to be decisive and Mr Howell should be pressed to make firm plans.

1980/81 DISPOSALS

£m at 1979/80 OTP

(i) FAIRLY FIRM

New Towns (E & W)	140 - 170*
(Scotland)	2
British Aerospace (about 50%)	100
NEB Shareholdings - at least	70
Motorway Service Areas	40 - 50
British Sugar Corporation	20
Market Towers	15
PSA	4
	391 - 431

(ii) OTHER POSSIBILITIES

Cable and Wireless	65
Radiochemical Centre	20
NCB Subsidiaries (Sankey)	10 - 20
BCG (interest in Wytch Farm oilfield)	100

*£170m assumes a £30m carry over from the 1979/80 disposals target

Wytch Farm

BGC own 50 per cent of the onshore Wytch Farm oil field. BP own the other 50 per cent and are likely to be interested in buying out the Corporation (and might have a contractual right of first refusal). A very rough valuation of BGC's 50 per cent share in the field is £100m.

The case for the sale, besides the useful PSBR savings, is that its operation has no direct relevance to BGC's main business of gas production and distribution; the field produces no gas.

BGC will strongly resist the sale arguing:

i) The field has been successfully developed as a result of their entrepreneurial efforts and geological expertise (in the face of what has turned out to be wrong technical advice from BP). Its sale would reduce the Corporation's resources engaged on hydrocarbon exploration and development and would thereby reduce their potential for further exploration in the North Sea.

BUT

BGC may, as a condition of the sale to BP, be able to obtain a management contract, at least for a few years, so as to enable them to redeploy the exploration etc staff now employed at Wytch Farm to explorations in the North Sea.

ii) The size of the recently discovered oil reservoir below the existing reservoir has not been determined. The field could therefore not be valued accurately and the public sector would lose out in any sale.

BUT

The sale contract could provide for the payment of a substantial sum on account (to reflect proven reserves of oil in the field) with balancing payments to be made later when the full facts are known. This cannot be the first occasion in the oil industry when a field has been sold before its full potential has been known.

Section 7(2) of the Gas Act 1972 includes a specific power for the Secretary of State to direct the Corporation to dispose of assets. The Attorney General advised (orally on 11 June) that the risk involved in using the powers in the Act to direct the Corporation to sell Wytch Farm was justifiable though he could not guarantee that there would not be trouble. It was therefore up to the Secretary of State to take the decision on the use of the powers after proper consultations with the industry. (The Attorney General did not think the risk justifiable in using the powers to direct the Corporation to sell offshore assets.) If it were thought that the risks of using the powers for the sale of Wytch Farm were too great, legislation could be introduced next Session (eg in the Petroleum and Submarine Pipelines (Amendment) Bill, provided that it was to be enacted by 31 March 1981) to give the necessary powers.