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PRIME MINISTER

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Mr Howe wants a discussion on the N. industry financing problem. You also suggested one. Shall I fix one up with Chamber, KT, DH + Officials in about a month's time when the Dyrie group

I was extremely interested to see Geoffrey Howe's minute of 16 January and the report by Treasury officials on nationalised industry financing. should have got some more?

I entirely share his view that there is no simple answer to these problems but I do believe that he has raised some fundamental issues on which I would welcome the opportunity for some discussion. Yes not R.

x | I welcome his emphasis on the need for inventiveness in our approach to privatisation. This is of course an area where resolution of the PSBR problem coincides with our broader political and social objectives. Certainly in my own special field I have been concerned to foster such innovative developments between the public and private sectors, and as you know I am moving forward in a number of areas and have others under consideration. Apart from the partnerships between BNOC and the private oil companies there is the gas-gathering pipeline, our intention to legislate to enable private equity to be introduced into BNOC, and our proposal to break BGC's privileged position on purchasing gas from producers which, to be worthwhile, will almost certainly involve co-operation between BGC and private firms in using the existing national distribution main. We shall also shortly be considering how to deal with BGC's appliance retail business in the light of the MMC report. Beyond these developments in the energy sector I think we have to recognise that any radical move forward may lead into areas where the net balance of advantage may be more doubtful and may bring us up against new and major problems. We agreed at E(DL) last May that there might be such possibilities for the longer term but acknowledged that no workable options could be identified at present. To address these possibilities seriously would mean dedicating a considerable effort from our constrained resources, and I therefore suggest that we should first discuss which particular areas offer sufficient prospect of success to make it worthwhile. 4/12



There is no doubt that the big prize would be to get the coal industry out of its state mould. I see this as attainable but only if we stick single-mindedly to the current strategy of policies that ^{push} NCB into profit first.

I was glad to see Geoffrey's suggestion that officials should examine further the questions at the end of the report about the possibility of devising new financing techniques which might allow some easement of PSBR constraints on worthwhile investment. The NI's themselves attach considerable importance to this, and I believe this is an area where innovation might well also suit Government interests. It may well be that wider possibilities would open up with advantage to both interests if we can switch emphasis from the PSBR to GGBR. I therefore hope the studies which Geoffrey suggests will be pursued in a positive and constructive way with a firm determination to overcome the many difficulties exposed in the paper.

JA.

SECRETARY OF STATE FOR ENERGY

2 February 1981