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CONFIDENTIAL

The Rt Hon Nigel Lawson MP
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Treasury Chambers
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D. Nigel

RESIDUAL SHAREHOLDINGS

Thank you for copying to me your letter of 15 February to Peter Walker.

2 I am most anxious that you should avoid giving the impression that any particular residual holdings are to be sold in 1984/85. It would be wrong to do so before we have reached collective decisions on disposal, yet an announcement that the Government will be considering the possibility would give a clear signal to the markets that this is our intention.

3 Our primary aim in privatisation is to improve economic efficiency, and we have publicly acknowledged that short term benefits for the PSBR are secondary. It is the initial act of privatisation which secures the wider efficiency benefits and selling residual holdings make no significant further contribution to this. Given that the capacity of the market to absorb Government sales is limited, it must surely be right to accord priority in our timetable to initial privatisations, postponing the sale of residual holdings until the market is better able to absorb them. This should also secure us a better price.

4 I am particularly concerned about the possible impact of an announcement of the kind you envisage on the BT flotation. Our advisers on this, Kleinwort Benson, know from their discussions with the institutions that they are concerned at the amount of stock the Government's privatisation programme is asking them to absorb. On the basis of their advice, I too am concerned that the announcement of a prospect of sales of residual Government shareholdings, on top of the initial privatisations scheduled for 1984/85, could disturb the institutions on whom we depend for executing the exceptionally large BT sale.



X | 5 I have an additional concern, relating to British Aerospace. Throughout our discussions with BAe on the financing of the A320 a cardinal point has been BAe's need (which we have accepted in principle) to keep its balance sheet in a condition where the company could raise additional capital (possibly via a rights issue) within the next few years on reasonable terms. The possibility of a further disposal of shares by the Government has been raised in these discussions and the company have been told, in accordance with the Government's position up to now, that no further disposals are scheduled. To raise in your Budget speech the possibility of a disposal in 1984/85 so soon after a deal on the A320 has been reached with BAe would upset all the assumptions on which that deal has been struck. It would certainly lead BAe to accuse the Government of a major breach of faith.

6 Moreover there would be a further prospect of allegations of inside knowledge against the Government. During the A320 discussions we have had made available to us detailed information on BAe's financial situation and forecasts going far beyond what would normally be available to a shareholder. In addition, the support deal on the A320 may of course itself be an important factor influencing BAe's share price in 1984/85.

7 For all these reasons I strongly urge that you make no reference to residual shareholdings in your Budget Speech. Instead you might like to make a low key announcement perhaps by way of an arranged Parliamentary Question, based on the first two paragraphs of your draft but making no reference to the possibility of sales in 1984/85.

8 I am copying this to the Prime Minister and to the other recipients of your letter.

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