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SUBJECT FILED ON:
ECON POL: Privatisation
Pt 8

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PRIME MINISTER

Competition and Privatisation:

E(A)(84)3

BACKGROUND

1. At their meeting on 27 October, the Sub-Committee agreed that the pace of work on the privatisation programme should be accelerated, giving particular weight to the need to increase competition; and that the Financial Secretary, Treasury should pursue bilateral discussions with the main sponsor Ministers and draw up a timetable for discussion early in 1984 (E(A)(83)6th Meeting).
2. The Financial Secretary has now completed his discussions. The results are set out in the memorandum by the Chancellor of the Exchequer, E(A)(84)3. This draws attention to the implications of the proposed programme for the market and for the Government's legislative programme. He proposes that the Financial Secretary should continue to supervise progress, with the Chancellor reporting to E(A) as necessary on any significant variations of plan that may emerge. E(A)(84)3 stresses the need to ensure that the importance of increasing competition is taken into account.
3. Finally, the Chancellor of the Exchequer proposes that all Government shareholdings, other than 'special shares' which give Ministers exceptional rights to influence the operation of certain companies judged to be particularly important for the national interest, should be transferred to the Treasury so that they can be managed as a single portfolio and disposed of as appropriate.

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4. E(A)(83)6th Meeting invited the Secretary of State for Energy and the Secretary of State for Scotland to put forward options for increasing competition in and privatising the gas and electricity supply industries. Papers on these matters are expected to come forward next month.

MAIN ISSUES

5. The detailed proposals in the attachments to E(A)(84)3 have been discussed with departments; and so far as we know there is unlikely to be any serious dissent. Nor is it likely that the Sub-Committee will dissent from the need to make increasing competition a dominant theme in the privatisation programme, or from the recommendation that the Financial Secretary should oversee progress. They will probably wish to concentrate on the following.

- i. Should any major additions or deletions be made in the list of candidates for privatisation?
- ii. Are the market implications of the proposed programme tolerable?
- iii. Are the legislative implications acceptable?

They will also need to discuss:

- iv. The proposal to transfer all except "special" shares to the Treasury.

The list of candidates

6. It seems unlikely that any member of the Sub-Committee will wish to suggest deletions from the proposed programme at

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this stage. If there are any major difficulties these are more likely to emerge at the next stage when the specific options for privatisation are considered. If the programme is carried through as proposed it will represent a formidable reduction in the public sector within the life of this Parliament. The main areas left untouched on present plans will be:

- the NCB's mining activities
(this would require primary legislation and it is no doubt better to concentrate effort during this period on closures)
- BL's Austin Rover volume car business
(the commercial prospects are not thought good enough but collaboration with other companies such as Honda may lead to some equity participation)
- BS's merchant shipbuilding
(depending on the Corporate Plan which E(NI) is to examine shortly, not much of this may survive)
- BSC's mainstream business
(privatisation is likely to be beyond the life of this Parliament but the possibility of creating separate Companies Act companies is being pursued)
- the Post Office, other than National Girobank
- BR's railway business
(although private finance for the Victoria-Gatwick line and possibilities for more contracting-out are being pursued)

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Market implications

7. The chart annexed to E(A)(84)3 shows that the proposed programme would make heavy calls on the equity market. The Chancellor of the Exchequer's targets for asset sales are £1.9 billion in 1984-85, and £2 billion in each of the years 1985-86 and 1986-87. This is because he does not wish explicit targets, which might be published, to appear over-optimistic. In fact the individual figures for the major candidates where action is already in train add up to around £6 billion over the three years, for example:

British Telecom	£4 billion
British Airways	£1 billion
Enterprise Oil	£400 million
Jaguar	£200 million
Royal Ordnance Factories	£150 million

This makes no allowance for the British Gas Corporation, British Airports Authority and National Bus Company where possible sales might arise in 1986-87, or for minor candidates and possible sales of residual shareholdings in companies already in the private sector such as BP, Britoil, Cable and Wireless and BAe.

8. The capacity of the capital markets is for the Chancellor of the Exchequer to judge. But the Sub-Committee may wish to satisfy themselves that he is confident that the totals implied by his detailed proposals are realistic.

Legislative implications

9. The chart annexed to E(A)(84)3 envisages three major privatisation Bills for the 1984-85 Session: on the bus industry, the British Airports Authority, and the British Gas

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Corporation. Firm bids have been made to QL for the first two Bills; but only a marker has been put up for the third. In all these areas there are major policy issues about the structure for privatisation on which serious discussion has not yet begun. It seems likely that the resulting Bills will be introduced late in the Session and will be contentious. If so, it will not be realistic to assume, as the chart does, that Royal Assent could be secured by the end of March 1985. We understand that the Lord Privy Seal, in fact, is not convinced that any of the legislation could be ready early enough in the 1984-85 Session to secure passage by the end of the Session, given the other demands made by the programme. His proposals to QL (in QL(84)3), which are to be discussed by that Committee on 24 January, *QL has now provisionally decided to recommend inclusion of only one of the three Bills - that relating to buses.*

10. Treasury Ministers will no doubt argue strongly that this is an inadequate recognition of the importance to the Government's strategy of privatisation and increasing competition. On the other hand, there is no point in building the legislative programme on false premises. You will no doubt wish to question both the Treasury Ministers and the relevant sponsoring Ministers (the Secretary of State for Energy and Mrs Chalker representing the Secretary of State for Transport) on the realism of their estimates.

Transfer of shares

11. Who holds the Government's shares is essentially a matter of mechanics. We have no reason to suppose that members of the Sub-Committee will dissent from the Chancellor of the Exchequer's proposal to transfer ownership to the Treasury. Transfer to the Treasury of shares other than "special" shares may have the incidental presentational advantage of re-emphasising that the Government holds its shares as a

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(temporary) investment portfolio and does not intend to intervene in the management of the companies concerned.

Next steps

12. It seems unlikely that there will be dissent from the proposals for organising the future work. The approach is broadly as follows:

- i. the Financial Secretary to remain as coordinator of the programme;
- ii. policy options on specific industries to be brought either to E(DL) under the Chancellor's chairmanship or in major cases such as gas and electricity to E(A) under your chairmanship;
- iii. reports on the overall progress of the programme to E(A) as necessary.

HANDLING

13. It will probably be convenient to divide the discussion into two main parts.

- i. All matters other than legislation (in particular any substantial changes in the list of candidates proposed in E(A)(84)3; market implications, and the transfer of shares to the Treasury); and
- ii. legislative implications.

14. You might open the first part of the discussion by inviting the Chancellor of the Exchequer to introduce his proposals; the Financial Secretary, Treasury could then be

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asked to expand on any points of detail. Any member of the Sub-Committee may wish to comment on the candidate or candidates for which he is responsible; but you will wish to discourage contributions on mere matters of detail which do not call the proposed programme seriously into question.

15. The second part of the discussion could again be introduced by the Chancellor of the Exchequer. The Lord Privy Seal could then be invited to reply. The Secretary of State for Energy and the Minister of State, Department of Transport could be asked for their assessment of the timetable for any legislation on their industries (gas, buses and airports) in the 1984-85 Session.

CONCLUSIONS

16. You will wish the Sub-Committee to reach conclusions on:

- i. The programme of privatisation set out in the attachments to E(A)(84)3 and, in particular, the legislative implications.
- ii. The proposed arrangements for supervision (day to day in the hands of the Financial Secretary, Treasury, with reports by the Chancellor of the Exchequer to E(A) as necessary).
- iii. The need to give full weight to competition and deregulation.
- iv. The proposed transfer to the Treasury of shares, other than "special" shares.

PLG

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24 January 1984