



Secretary of State for Industry

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16 September 1982

Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

Prime Minister (2)

Mus 16/9

Dear Geoffrey,

## PRIVATISATION

In her personal minute to you of 28 July the Prime Minister asked Departmental Ministers to report to you on the prospects for privatisation: I attach my report.

2 Two of the main enterprises sponsored by this Department, namely British Aerospace and Cable and Wireless, have been privatised and British Telecommunications, which we have announced we intend to float after the next Election, will be the third. For the less profitable industries - the British Steel Corporation, British Shipbuilders, BL and Rolls Royce - progress is inevitably slower but, as you will see from the report, the framework is being laid for the next Parliament and, where possible, disposals are being made on the way. The Post Office presents special difficulties but in view of the Prime Minister's request I am looking afresh at the possibilities.

3 One question which might be covered in your eventual report to the Prime Minister is how far we should urge Chairmen to dispose of loss making activities at a very low, or negative, price perhaps significantly below the book value of the assets concerned, or ourselves be prepared to provide a substantial 'dowry' in order to secure the advantages of privatisation. A disposal on such terms may still be a good deal for the taxpayer if it avoids any future call on public finance by the activity concerned. The answer can greatly influence the extent and speed of progress; the point is relevant, for example to parts of the British Steel Corporation.

4 I am not yet able to give you my final conclusions on this Department's research establishments; I shall write to you shortly on this. I shall also bear in mind the question of



privatisation and disposals in my current review of the role of the British Technology Group.

5 I am sending copies of this minute and of the attachment to the Prime Minister and to the other members of E(DL).

Yours ever  
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PRIVATISATION PRESENT SITUATION AND PROSPECTS

REPORT BY THE SECRETARY OF STATE FOR INDUSTRY

British Telecommunications

1. I announced in June the intention to establish British Telecommunications as a public limited company, and to float 51% of the shares after the Election. While an earlier sale of shares might be possible it would mean changing the recently announced decision and would set a very tight timetable which could seriously prejudice a successful flotation. However, it may be worth exploring the feasibility of selling shares to users and employees earlier than we have planned. Any such work would ensure that we are in a position to make a flotation, possibly in one tranche, as soon as possible in 1984 after the Election.

2. Selling more than 51% of the shares in the first instance might jeopardise the launch, as the stock market will find it difficult to digest the 51% ; and any flotation would probably have to be accompanied by a pledge not to sell further shares for the foreseeable future (which in practice means 18 months or two years). However the position could be reviewed after such a period.



3 It makes little sense in the meantime to sell off parts of BT. In the first place any profitable parts sold would diminish the overall value of the company. Secondly, any closure of loss-making parts, which are unlikely to find a private purchaser, would be disruptive to BT in the interim period.

#### British Steel Corporation

4 The major integrated steel making plants of BSC can only be privatised after there is a real prospect of profitability and viability. This remains our aim. In the meantime, parts of BSC's business, peripheral and central, are being privatised or closed down, in addition to sales of surplus land, property and other assets. Two major joint companies, free-standing from BSC, have been formed with private interests: Allied Steel and Wire (with GKN), turnover £314 million; and Sheffield Forgemasters, (with JFB), turnover £140 million. Both these companies are now in the private sector. Further, though smaller, ventures of this type may emerge.

5 The next major planned privatisation during the coming year is of BSC's profitable Tubes Division which represents one fifth of BSC's business and had sales of over £500 million in 1981/82. Detailed negotiations have been in progress with Tube Investments about merging BSC Tubes Division with TI's steel tube business, and floating the resulting joint company. I expect to receive a report on this by the end of October.



6 Because prospects for steel generally are poor in the short term, quicker progress on BSC disposals would be made if we were to tell Mr MacGregor that it was less important to obtain the best price for a business than to proceed with disposals as soon as possible. The BSC Chairman feels himself under an obligation to get a good price for BSC assets (having regard to book value), and this has caused difficulties with some potential sales. Other proposed joint ventures could also be helped by Government offers of assistance, (eg under the Private Sector Steel Scheme), as in the recent case of Sheffield Forgemasters.

#### British Shipbuilders

7 It is unrealistic to consider disposing of the whole of BS or its loss-making merchant shipbuilding and marine engine facilities while future prospects are poor. As regards BS's profitable warshipbuilding activities, Rothschild's advice is that Yarrow and Vosper (the BS specialist surface warshipbuilders) cannot be floated at present while their joint capacity appears in excess of MOD's long term requirements for surface warships and export performance is disappointing. Orders to replace Falkland losses coupled with a breakthrough on exports could alter the picture or it may be possible to interest again the previous owners, who are to be approached shortly on this matter. As regards Vickers, Rothschilds had advised that, subject to certain conditions, and in particular that the capital needed to finance their substantial modernisation programme (costing about £200 million) can be assured, a flotation after



the election might be possible. In addition, Mr Plastow of Vickers Ltd (the private sector company) has expressed some interest in buying the Vickers subsidiary of BS and this is being explored further.

8 BS can be expected to oppose strongly the sale of warshipbuilders since this will leave them only with loss-makers. However, a Bill will be introduced in the next session to take powers to direct BS to sell assets. These powers, which do not exist at present, would enable preparatory work to be done for the sale of at least Vickers and possibly the other warshipbuilders after the election.

9 BS have however been willing to sell off their small peripheral engineering activities such as Sunderland Forge and Wolsingham Steel, but they have failed to find a buyer. Wolsingham presents particular difficulties because of the general over-capacity in steel.

10 On shiprepair, BS are in response to Ministerial pressure taking action to eliminate losses at Vosper Shiprepairers and Tyne Shiprepair. Up to 1,400 jobs will be lost in the reorganisation which could bring these companies to a state where they might possibly be sold. There may also be other candidates for privatisation in shiprepair.



Post Office

11. When this was last looked at I saw considerable difficulties in privatisating the Post Office as a whole and <sup>thus</sup> replacing a public monopoly by a private one. However in the light of the Prime Minister's minute the Department is considering afresh the possibility of privatisation of either all or part of the Post Office, or of joint ventures with the private sector.

British Technology Group

12. ~~I am~~ currently reviewing the role of the BTG. However, whatever arises from this review it seems clear that there is a requirement for some public body dealing with some or all of the areas covered at present by the Group, which include technology transfer, support for new technologies and small firms.

13. The BTG is charged under the NEB's guidelines with disposing of the assets it already holds or assumes as soon as commercially practicable. The major shareholdings have all but gone (BL in which the Department now holds the shares is discussed below), and those that remain with the BTG, including Inmos, are unlikely to be saleable until the companies have established a good track record. The BTG is determined to maintain the momentum.

BL

14. Our main objective, and that of the BL Board, remains the return of the whole of BL, probably by instalments, to the private sector as soon as practicable, and certainly by the late 1980s; and to show early and visible progress to this end. The BL Board are preparing, for presentation in their 1983 Corporate Plan, a strategy for privatisation that will involve, in the next two years, the sale of minority stakes in BL's more profitable businesses (ie Unipart and Land Rover), the continuation of existing collaborative links, and the search for new ones. This is the outcome of prolonged discussion with BL, and has been agreed following correspondence between Ministers. We shall have the opportunity to discuss the detailed programme when we consider BL's Corporate Plan in the Autumn. BL continues to dispose of its non-mainstream assets whenever buyers can be found.

Rolls Royce

15. It remains the Government's aim to return Rolls-Royce to the private sector as soon as practicable and the appointment of a new Chairman this autumn should provide a fresh impetus. Objectives for the company approved by Ministers and accepted by the chairman-designate require that the company should be managed in such a way that it can be returned to the private sector during the course of the next Parliament and no later than 1988. As an incentive the chairman-designate has been offered an option to purchase shares in the company as part of a performance-related remuneration package.





1988 is the earliest target date which Chairman-Designate would accept before he has got his feet under table and is able to properly assess the Company's problems.

16. In the meanwhile, the Department will explore with the new chairman the possibility of hiving off the non-aero elements of Rolls Royce although they do not account for a very significant part of the company's business. It remains to be seen whether he will argue, as did the present chairman, that Rolls should retain its industrial engine side on the grounds that it is inextricably tied in with the aero-engine business. However there would undoubtedly be problems if an attempt were made to detach the nuclear work which Rolls carries out for the Ministry of Defence. The MOD would also need to be consulted about any suggestion that the marine side of Rolls business should be sold off.

#### 17. POSSIBLE FURTHER DISPOSALS OF SHARES

##### (a) British Aerospace

The Government sold 51% of the shareholding of BAe on the basis of undertakings that it would not sell more in the 'foreseeable future' (we have told Kleinworts that this means at the earliest not before February 1983), and that it intended, in any event, to hold more than 25% (in order to block any substantial foreign shareholding).

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Thus, in theory, it would be possible to sell a further 23% after February 1983. However, it is not clear how the market would receive a further tranche since Bae's future prospects are more than usually bound up with various Government decisions (eg launch aid for the A320) which will be taken over the next two or three years. And the management is unlikely to welcome a further major shift in the ownership. Nevertheless the possibility of a further flotation could be reviewed next February.

(b) Cable and Wireless

Following the offer for sale of Cable and Wireless (October 1981), and after deducting the shares committed to the Employee Share Schemes, the Government still retain 50% of the issued share capital of the company plus one Ordinary Share. The Government stated at the time of the sale that it intended to retain a majority shareholding in Cable and Wireless for the foreseeable future. This can reasonably be interpreted as meaning a period of not less than eighteen months (there is no commitment in this case to no further sales for at least 2 years as in the case of BAe). It would therefore be open to the Government to sell a further tranche of shares in Cable and Wireless in mid-1983. However this would be much too early given our commitments to overseas Governments and Cable and Wireless' review of their commercial strategy in the light of privatisation.



English Industrial Estates Corporation

18. It is unlikely that the Government's policy on future industrial building in the Assisted Areas could be implemented solely by private enterprise. Since initial returns and long term yields there are unattractive the Government could persuade them to invest only by guaranteeing a minimum return which would result in the Government bearing the losses but taking none of the profits, hence increasing net public expenditure. Moreover the private sector might never be attracted to the worst (and therefore most needy) areas.

19. However following a review of the EIEC involving Mr David Young

- the EIEC employ private sector contact management and labour for all their projects;
- substantial private sector funds have been secured for a number of developments, and will continue to be sought;
- the EIEC's historical assets (Government leases) which were unsaleable are being converted, by renegotiation, to saleable leases as opportunities arise. This is a slow process, but a substantial improvement in the rate of disposals, from around £2.7m in 1978 /79 to around £10m in 1982/83, has been achieved.

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### Departmental Research Establishments

20. The intention is to set up the National Maritime Institute as a private company on 1 October 1982, and (although this is a very tight timescale) to transfer the Computer Aided Design Centre to the private sector by 1 April 1983. Discussions are being held with the customer Departments of the Laboratory of the Government Chemist to determine what, if any, of the work they contract to the Laboratory could be done by the private sector instead.

I am considering if there is further scope for privatisation in this Laboratory or in the Department's three other remaining research establishments.

### Other Departmental activities

21. None of the Department's own activities lend themselves to true privatisation (as opposed to contracting out which is being covered in the separate exercise conducted by the Chancellor of the Exchequer). The Department could withdraw from the Cotton Industry War Memorial Trust but this would require disproportionate effort, including legislation, to save only 2-3 hours of work per year.

22. The Design Council's role as the Government's principal vehicle for promoting good design could not be wholly financed by the private sector. Our power of appointment of members and the

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provision of most of its finance though a grant in aid ensures that the body does what we want it to do. A loosening of control would be detrimental in this respect.

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13 September 1982