



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

PRIME MINISTER

In your minute of 28 July you asked colleagues to put in hand surveys of potential candidates for privatisation in this and the next Parliament; and invited me, as Chairman of the Sub-Committee on the Disposal of Public Sector Assets (E(DL)) to report on the proposals put forward.

2. The Annex to this minute lists those organisations and activities which, in response to your minute, colleagues have suggested might be disposed of before the General Election or in the new Parliament. E(DL) discussed these proposals on 2 November.

3. The Sub-Committee concluded that the proposals constituted a useful first step towards keeping up the momentum of our privatisation efforts, but that further action was necessary in two areas. First, our past experience has shown that developing privatisation proposals into a workable form is a time-consuming and painstaking business. It is therefore of the utmost importance that all Ministers concerned should now put in hand work to permit their proposals for privatisation to be put into effect at the earliest possible date. We must avoid finding ourselves, after the Election, in a situation where we are unable to make rapid progress with privatisation because insufficient work has been done meanwhile on the many policy and technical issues that arise in any particular case, especially for privatisation proposals affecting major nationalised industries.

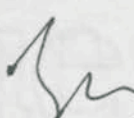
4. Secondly, the Sub-Committee agreed that there was a continuing need for Ministers to take as wide-ranging and imaginative an approach as possible in trying to identify candidates for privatisation. Otherwise, there is a risk that the programme will run out of steam. Overall, special sales of assets should raise about £570 million in 1982-83 and, on present prospects, about £750 million in 1983-84 and £1500 million in 1984-85. Thereafter however the picture is much less satisfactory. At the moment, possible proceeds of less than £100 million in 1985-86 have been identified.



5. The Sub-Committee also agreed that where a monopoly is privatised, efforts should be made, whenever appropriate, to reduce its power either by introducing competition into the market concerned or by splitting the monopoly into regional companies; although in some cases such action may not be practical or may cause unacceptable delay in privatisation.

6. Every six months E(DL) will reconsider progress on and prospects for privatisation, on the basis of reports which the Financial Secretary will prepare.

7. I am copying this minute to all members of the Cabinet, the Financial Secretary, Treasury and Sir Robert Armstrong.


(G.H.)
9 November 1982

Privatisation in this Parliament

Firm

MINISTRY OF AGRICULTURE
FISHERIES AND FOOD

Covent Garden Market
Authority

Land Settlement
Association

Livestock

Privatisation
of $\frac{2}{3}$ of
artificial
insemination
service March
1983

Forestry
(see SCOTLAND Annex)

Possible

Report on prospects for
sale of Market Towers
office block being
considered

Set up co-operative
marketing structure, and
dispose of surplus land
and property

Quality control may be
privatised by end of
1982 as a result of
advisory body report

Privatisation in the
next Parliament

Comments

Has been on the
market since
Autumn 1980 (value
+£20m). Lower price
being considered.
Intention is to
end MAFF
responsibility for
financing
tenants

SECRET

Privatisation in this Parliament

Privatisation in
the next Parliament

Comments

CHANCELLOR OF THE
EXCHEQUER'S DEPARTMENTS

Inland Revenue

Civil Service Catering
Organisation

HMSO

Reprographic
services

Bindaries

Printing presses
(except London)

Treasury

Firm

Possible

Non-rating work of
the valuation office.

Committee due to report in
early 1983 on possibility
of work being done in the
private sector.

Ministerial discussion of
possibilities for
contracting out/privat-
isation by end 1982,
following recently completed
Rayner Report on CISCO.

450 posts already saved:
further reduction of 150
in next 18 months.

400 posts saved.

150 posts saved.

Possibility for selling
further BP shares to be
kept under review.

SECRET

Privatisation in this Parliament

Privatisation in the
next Parliament

Comments

MINISTRY OF DEFENCE

Firm

Possible

Royal Ordnance Factories

Rocket Motor Organisation

Military Vehicles and
Engineering
Establishment

Defence Accommodation
Stores

Miscellaneous

- Staff hostels)
- Procurement of medical stores)
- Military schools)

Negotiations pro-
ceeding with IMI Ltd

Negotiations
proceeding for part
sale to Fairey

April 1984

Privatisation
expected
subsequent to
1986.
Place in legislation
programme awaited
for legislation
to convert ROFs
to Companies Act
Company.

400 posts

Considering
privatisation

DEPARTMENT OF HEALTH AND
SOCIAL SECURITY

National Health Service

Miscellaneous

Privatisation in this Parliament

Firm

Possible

Privatisation in
the next Parliament

Comments

Health Authorities
being advised that
products should
only be
manufactured in
certain defined
circumstances

Cooperation
between NHS and
public health
care sector
being reviewed

Review of
possibilities
for disposing
of surplus NHS
land and
properties well
advanced

Possible use of
private sector
in storing and
distributing
NHS supplies
being reviewed

DHSS in-house
NHS supplies
testing and
evaluation work
being reviewed

SECRET

Privatisation in this Parliament

Privatisation in the next Parliament

Comments

Firm

Possible

DEPARTMENT OF EMPLOYMENT

MSC

Professional and Executive

Wholly commercial basis by April 1983

Full privatisation possible

Skillcentres

Trading Fund status by April 1983

Full privatisation possible

Miscellaneous

Health and Safety Executive unit for approving electrical equipment for use in flammable atmospheres

Privatisation possibilities to be reviewed in 1985

In all three cases decisions are subject to review in the light of re-organisatio

SECRET

DEPARTMENT OF ENERGY
Nationalised Industries

National Coal Board

Electricity Council and
Boards

British Gas Corporation

Britoil

Other industries

British Nuclear Fuels
Limited

Miscellaneous

Privatisation in this Parliament

Firm

Legislation
in 1983-84 session
allowing private
supply of
electricity as
main business -
open up to
competition

Selling off of
BGC offshore
oil asset
subsidiaries
(1983-84
£420 million)

Disposal of 51%
of the shares
November 1982

Sales from oil
stockpile (£35
million in
1982-83)

Possible

Sale of non-mining
subsidiaries and
overseas interests

- (i) Sale of BGC 50%
interest in Wytch
Farm January 1983.
- (ii) Gas showrooms -
enlarging private
sector stake in
sale of appliances.

Privatisation in the next
Parliament

Opencast and other
mainstream activities
to be reviewed mid 1983
in the light of political
feasibility

- (i) Electricity showrooms -
ensuring competition
on a fairer basis.
- (ii) Paper on future of
electricity supply
industry to E(NI) by end
year dealing with privat-
isation.
Undeveloped acreage
Prospects for disposing
of BGC's mainstream
activities to be reviewed

Further share sales may
be possible

Introduction of private
capital

Oil pipeline and storage
system

Comments

In midst of an
assessment of
undeveloped
acreages, with a
view to disposal

Estimated revenue
£600 million (?)

Advice on prepar-
ations required
for partial
privatisation
to be received
from Schroder Wa
November 1982

Consultants to
report by spring
1983 on possibil-
ity for privatis-
ation of oil pipe

SECRET

DEPARTMENT OF THE ENVIRONMENT

Local Government

Council house sales.

Professional building services.

Countryside functions and allotments.

Non-departmental public bodies

Water Authorities.

British Waterways Board

Privatisation in this Parliament

Firm

(i) Increase rate of sale of vacant local authority houses.
(ii) Maintain sales programme to tenants.

Possible

Some authorities (eg Birmingham) considering scope for privatisation.

Possible scope for privatisation.

(i) Disposal of BWB freight interests and non-operational estates.

(ii) Increase private investment in amenity developments.

Privatisation in the next Parliament

Comments

Explore scope for privatisation with Water Authorities and private firms - initial assessment of viability by April 1983.

SECRET

Privatisation in this Parliament

Privatisation in the next Parliament

Comments

New Towns

Firm
Continuation of substantial disposals of industrial and commercial assets and housing.

Possible

Nature Conservancy Council

Rayner Review due by April 1983 to indicate scope for privatisation.

Miscellaneous

Ordnance Survey

Trading Fund to be set up from April 1983.

Full privatisation.

Dependent on performance as a Trading Fund

Building Research Establishment

Board of Management to be appointed which will examine potential for establishing private company or operating a trading fund.

Cartographic service

Subjects of Rayner Scrutiny due to report November 1982. Decision by April 1983.

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Privatisation in this Parliament

Firm

Possible

Privatisation in the
next Parliament

Comment

HOME OFFICE

Telecommunications for police,
fire, prison and civil defence
services

Full privatisation
possible

Cannot guarantee
privatisation
since local
police/fire
authorities
could choose to
do it for
themselves. No
feasible to
change until
completion of
conversion
programme in
1989.

Radio regulation

Privatisation of parts

SECRET

DEPARTMENT OF INDUSTRY

Nationalised Industries

British Telecom

British Steel Corporation

British Shipbuilders

Post Office and National Girobank

Other industries

British Technology Group

Privatisation in this Parliament

Firm

Possible

Complete sale of shareholdings in private companies (eg United Medical Enterprises, 1983)

- (i) Further joint ventures with private sector
- (ii) Peripheral activities, land and property

Privatisation in the next Parliament

Sale of 51% of company to private sector with first tranche offered after the election

Tubes Division and other major operating divisions as they can be brought to continuing viability

Vickers, Yarrow and Vosper warship builders

Vosper & Tyne ship repair activities

Comments

Lack of profitability prevents sale of major operations but possibilities will be kept under review

Dependent on cutting down capacity in line with likely demand from MOD and from exports

Currently loss makers. Present action on demanning may assist saleability

Special problems eg social obligations need careful study before privatisation proposals are put forward

Further hiving off being considered in a separate review by Secretary of State. Possibility of self-financing.

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DEPARTMENT OF INDUSTRY (cont)

Privatisation in this Parliament

Definite

Possible

Privatisation in
the next Parliament

Comments

British Leyland

Minority share in profitable subsidiaries (Unipart, Land Rover). Increase collaborative efforts in the private sector.

Sale to private sector by 1990

Corporate plan becomes available in Autumn, when more precise timetable can be formulated

Rolls Royce

Hiving off of non-aero engine elements

Privatisation by 1990

Further Share Disposals

British Aerospace

First possibility February 1983 (maximum 23%)

BAe prospects dependent on other Government decisions. Review possibility of further share sales in February. Prospects not good at present.

Cable and Wireless

First possibility mid 1983

Present undertaking and views of foreign governments need to be taken into account

Miscellaneous

National Maritime Institute (October 1982)

English Industrial Estates Corporation (sale of leases)

Computer aided design centre April 1983

Review of possibility of privatising other research establishments and functions to be completed by end of 1982

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Privatisation in this Parliament

Firm

Possible

LORD CHANCELLOR'S DEPARTMENT

Management of
Investment Funds

Part of Official
Solicitor's work

Privatisation in the
next Parliament

Comments

Review to be carried
out: timing uncertain

Review to be carried
out

Privatisation in this Parliament

Firm

Possible

Privatisation in
the next Parliament

Comments

NORTHERN IRELAND OFFICE

Shorts Brothers

Possible

Discussion with various interests with a view to full privatisation

Agriculture

Provision of loans to farmers, assistance with farm accounts, certification of animals for export, and some timber harvesting all now privatised.

Various minor fields being examined (eg poultry testing, milk recording, meat classification)

Housing

- (i) Provision of mortgages
- (ii) Sale of publicly owned houses.
- (iii) Setting up of Co-ownership Housing Association to enable increased private sector building

Transport and Roads

50% of NI Carriers Ltd taken over by National Freight Company

Maintaining contact with Great Britain studies of private finance for railways, airports and roads

SECRET

Privatisation in this Parliament

Privatisation in the
next Parliament

Comments

Firm

Possible

SCOTTISH OFFICE

Scottish Transport Group

Scottish Electricity Boards

Legislation enabling
private stake in
generation of
electricity

Increased private
involvement in
electricity
generation

Assessment of
prospects for
privatisation to
be completed by
merchant bank
for report to
E(DL) in November

Forestry Commission

Further increase in
annual sales
programme under
discussion

Part of Forestry
Commission falls
to Welsh Office
and Ministry of
Agriculture

SECRET

Privatisation in this Parliament

Privatisation in
the next
Parliament

Comment

DEPARTMENT OF TRADE

Firm

Possible

British Airways

Sale of 51% of shares in late 1983

British Airport Authority

Introduce part private finance, with possibility of full privatisation.

Civil Aviation Authority

Part disposal of aerodromes in Highlands and Islands of Scotland

ECGD

Review of ECGD's organisation and functions to be undertaken including scope for privatisation

Tourist Authorities and Boards)

Merchant Navy Welfare Board)

Possibilities to be considered

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DEPARTMENT OF TRANSPORT <u>Nationalised Industries</u>	<u>Privatisation in this Parliament</u>		<u>Privatisation in the next Parliament</u>	<u>Comments</u>
	<u>Firm</u>	<u>Possible</u>		
British Transport Docks Board	Flotation January 1983			
British Rail	(i) Complete sale of remaining hotels in 1982-83	(i) Sale of Sealink	(i) Victoria Gatwick line and other private capital schemes - preliminary exploration of possibilities	British Rail Engineering Ltd. Possibility of privatisation could be considered further in the light of Serpell Review due Autumn 1982
	(ii) Increase pace of property disposals	(ii) Privatisation of train catering		
	(iii) Private tenders for supply of rolling stock encouraged			
National Bus Company	Separate accounts established for National Express and National Holidays by Jan 1983 for later privatisation			Possibility of opening up stage carriage operations to private capital being considered
<u>Miscellaneous</u>				
Heavy Goods Vehicle testing	Transfer of responsibility to Lloyds register			
Private finance for road building		Invite tenders for an experimental scheme in 1983		
Motorway service areas	Sale to be completed 1983-84			

SECRET

Privatisation in this Parliament

Privatisation in
the next Parliament

Comments

Firm

Possible

DEPARTMENT OF EDUCATION AND SCIENCE)
FOREIGN AND COMMONWEALTH OFFICE)
MPO)
PAYMASTER GENERAL)
WELSH OFFICE¹)

Nil return of
privatisation

1 Proposals dealt with in other Departmental annexes.

SECRET

Debate on the Address - 5th Day.
Tuesday 9th November

Labour's resolution on "The Attack
on Public Enterprise and its
Effect on Unemployment".

*W
18/11*

This brief deals with the nationalised industries and privatisation. Another, on unemployment, has also been circulated for the debates on the Address.

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The Performance of the Nationalised Industries

Nationalised industries represent around 10% of GDP and employ 8% of the UK workforce. They dominate strategic sectors of the economy - energy, transport, steel etc. - and represent the major suppliers and customers of many firms in the private sector. Their efficiency and viability are crucial to the nation's economic performance. Few people would argue that their record is good:

- * In the thirty year period after 1954, accumulated government subsidies, capital write-offs and other payments amounted to nearly £8 billion. (Hansard, WA 31st July 1975, col 630).
- * Since the system of EFLs was introduced by Labour in 1976-7, the burden on the Exchequer has averaged nearly £2½ billion per year.
- * Pre-tax returns on investment have lagged consistently behind those of the private sector. Since 1972, the average rate of return on nationalised industries has never been significantly above zero.
- * The pre-tax real rate of return on the capital stock of £94 billion in 1980, including subsidies, was minus 1%. (Hansard, WA 28th June 1982, col 277).
- * Productivity performance in ports, steel, coal and rail has been notably below average.
- * Control on labour costs has been poor in most nationalised industries and notably so in gas, coal, electricity and telecommunications.
- * Over the public sector as a whole, pay was roughly in line with that in the private sector in 1970, but by 1981 had risen to 15% above for manual workers and 8% above for non-manuals.
- * In response to the recession, the private sector as a whole reduced its financial deficit by £1.6 billion in 1980-1, while the nationalised industries in aggregate increased theirs by about £700 million.
- * In 1981-2, the five biggest loss-makers among the nationalised industries produced a total loss of £1.5 billion.
- * Seven out of ten days lost because of strikes in 1980 and 1981 were within the public sector.
- * Prices charged by the nationalised industries have risen more rapidly than prices as a whole:

% increase in Year to	RPI	Goods and services produced mainly by nationalised industries
Jan 1979	9%	7%
Jan 1980	18%	17%
Jan 1981	13%	27%
Jan 1982	12%	11%
Sept 1982	7%	14%
Jan 1979- Sept 1982	55.8%	82.9%

Some of this increase was due to the unwinding of subsidies used by Labour to massage prices down in time for the election. These were costing £1 billion per year when the Government took office. However, as Nicholas Ridley, Financial Secretary to the Treasury, has said: "Another part of this rise in prices was certainly due to their failure to contain costs and improve efficiency". (Gloucester, 12th February 1982).

Reasons for poor performance

- * Nationalised industries, unlike private sector companies, are shielded from daily accountability to shareholders and bankers. The Chancellor has said: "The Morrisonian constitution grants our nationalised corporations a degree of autonomy which is probably unique in the Western world. In the strict sense of the word, they are constitutionally 'irresponsible'". (London, 1st May 1981).
- * They often have a monopoly position in the market. This removes them from the discipline inherent when customers can choose between competing suppliers.
- * They are frequently subsidised. The Chancellor has pointed out: "In the past, we have tended to subsidise production of those goods the public least wants, produced by processes which are least efficient, manned by employees who are most highly paid relative to their productivity". (ibid). The attitudes which this situation has engendered are very difficult to eradicate.
- * Often, their managers have been unable to resist irresponsible pressure from trade unions, whose bargaining position is frequently bolstered by closed shop agreements.
- * Without the ultimate threat of bankruptcy, there is little pressure to adapt and innovate.

Successive governments have grappled with the need to engineer constraints on the nationalised industries which will make them respond to their customers, 'bankers' and 'shareholders' in the way in which private sector companies do. It is very difficult to simulate the pressures of the market place, although these efforts continue. However, where it is appropriate, a much better solution is to return the industries to the private sector.

Public perceptions

Since 1950, a growing majority of the electorate has declared itself opposed to nationalisation. Recent surveys confirm the trend. The following tables are from an NOP survey in August 1982, commissioned by Aims.

1 *The Labour Party proposes to nationalize several more companies when it is next in Government. Do you think more companies should be nationalized or not?*

	All %	Labour %	Conservative %	Alliance %
Yes, more should be nationalized	16	38	5	12
No, no more should be nationalized.....	63	35	85	68
It depends which companies	4	7	2	6
Don't know.....	16	19	8	14

2 *Do you think more nationalization would make living standards in Britain go up or down, or would it make no difference?*

	All %	Labour %	Conservative %	Alliance %
Living standards would go up	15	26	7	12
Living standards would go down.....	41	17	63	38
It would make no difference	28	39	20	33
Don't know.....	17	19	11	16

3 *Overall, would you say nationalized industries are more efficient or less efficient than free enterprise industries?*

	All %	Labour %	Conservative %	Alliance %
More efficient	12	25	5	10
Less efficient	62	38	82	66
It varies.....	6	9	3	7
No difference	4	6	2	3
Don't know.....	16	21	8	14

Benefits of privatisation

- * The business is removed from the unreal world in which continued operation is guaranteed by the State. The ultimate threat of bankruptcy, and more usually, the need to persuade investors to invest in the business, impose essential pressures for improved efficiency.
- * Managers - the people who know most about the business - are liberated from political considerations. They can raise money in fair competition with other borrowers, and expand or contract the business and set prices as the market dictates.
- * The allocation of scarce capital is made more efficient when investment projects compete. This is good for the whole economy.
- * Employees are able to identify more closely with the commercial realities facing their industries. They can take a stake in them: 90,000 of them already have, under preferential arrangements. The National Freight Company is now owned by a consortium of its managers and workforce.

- * Consumers benefit from the effect which competition has on the efficiency and pricing policy of companies.
- * Small investors are often given preferential access to shares and the opportunity arises to interest people in direct involvement in the purchase of shares. Ownership by individuals (or by the institutions who look after the pension and insurance provision for individuals) constitutes real ownership by the people.

Progress on privatisation/liberalisation

The Government has made substantial progress in reversing the "Socialist ratchet". For the first time since the war, the size of the publicly owned sector of industry is being significantly reduced.

Communications Industry

British Telecom has operated separately from the Post Office since October 1982.

Nearly half the Government's shares in Cable and Wireless were sold in Autumn 1981, to form a private sector company.

Mercury was given a 25 year licence in February 1982 to run an independent telecommunication network in competition with BT. The first service is expected in early 1983.

Value added services, offered by private firms using BT's network, are now being licensed.

The supply and maintenance of telecommunications apparatus has been opened up to competition. One result is that private subscribers will no longer have to rent telephones other than the first from BT.

Legislation in place contains powers to require BT to form wholly owned subsidiaries and dispose of them.

Legislation outlined in the Queen's Speech will put BT into Companies Act form and enable the sale of shares. This will be a major extension of real public ownership.

Legislation in place allows the Post Office monopoly to be suspended.

Private operators have been licensed to provide mail services and document exchanges.

Transport Industries

Legislation in place permits the denationalisation of British Airways.

The National Freight Corporation (now Company) has been bought by a consortium of management and workers.

The traffic licensing régime has been relaxed, particularly in relation to express coach services.

Legislation in place allows private capital in the National

Bus Company.

British Rail's hovercraft subsidiary has been merged with Hoverlloyd, to form a new private sector company, Hoverspeed.

Six BR hotels have been sold, together with a significant portfolio of property.

Legislation in place allows the sale of Sealink, BR's ferry service.

The British Transport Docks Board, which owns 19 ports, is to be denationalised shortly.

The testing of heavy goods vehicles is being transferred to the private sector.

Energy Industries

Legislation in place permits the sale of shares in Britoil (formed from the oil exploration/production arm of BNOC), and BGC's oil-producing interests in the North Sea. It is intended that Britoil will become a private sector company, although the Government will retain special rights to prevent unacceptable changes in future control.

BGC's statutory privileges in buying gas, and its monopoly position in supplying large gas consumers, have been removed.

Legislation in place permits the sale of BGC's showrooms, subject to further legislation on safety.

BGC's half share in the Wytch Farm onshore oilfield is in the process of being sold.

Legislation outlined in the Queen's Speech will permit the private generation of electricity as a main business.

Other Industries

British Aerospace and Amersham International have been transferred to the private sector.

Legislation outlined in the Queen's Speech will permit privatisation of British Shipbuilders.

BL has disposed of its interests in Prestcold, Coventry Climax and Alvis.

Significant progress has been made with the rationalisation of the British Steel industry, both within BSC and in those sectors of the market where BSC and the private sector operate.

Part of the operations of BSC have been returned to the private sector in the form of a separate company, Allied Steel and Wire Ltd., now one of the largest wire companies in Europe. The Corporation has been reorganised so that the saleable parts, which are not part of the mainstream steel business, are formed into Companies Act companies. BSC's major construction subsidiary, Redpath Dorman Long Ltd., has been sold. Sheffield Forge masters is being established as a unique combination of publicly owned

(BSC) and privately owned (Johnson Firth Brown) industrial interests.

The NEB holdings in 21 companies have, to date, been sold back to the private sector. Prominent among these were holdings in ICL, Ferranti Ltd., and Fairey Holdings Ltd. The NEB's role as an agent of "back door nationalisation" has been ended.

In the longer term, the Government has made it clear that it does not accept that state ownership is the only solution for the so-called natural monopolies.

Privatisation of British Telecom

The Government's plans are outlined in the White Paper on the future of telecommunications, Cmnd. 8610, published in July 1982.

The Queen's speech outlined the intention to introduce a Bill which will convert BT into a public limited company with its shares owned by the Government. The Bill will also contain powers for the disposal of up to 51% of the shares although the intention is that the sale will take place after the next election.

The new company will operate under licence, in the way that the telephone service of Kingston upon Hull and the new Project Mercury do.

Terms of the licence will ensure that BT:

- * continues to provide access to telephone services to everyone who currently has such access.
- * provides services throughout the British Islands, including rural areas and remote locations.
- * provides essential services like 999 and telephone kiosks.

The licence will be enforced by a new Office of Telecommunications, which will also ensure fair competition and fair prices, and prevent exploitation by BT plc of its dominant position.

The Bill will also provide for the reform of the Telegraph Acts which set out the code under which telecommunications undertakings place their plant.

The Bill will include measures to strengthen the provisions of the Wireless Telegraphy Acts which are administered by the Home Office and which are not to be confused with the Telegraph Acts. The measures will tighten controls on the availability and use of illicit wireless telegraphy apparatus.

Points to Note

- No person who has access to telephone services at the moment will be denied access to them in the future, whether they rely on telephone kiosks or live in rural areas.
- Privatisation will bring to BT all the advantages which other companies enjoy associated with the ability to supplement finance from revenue and loans by finance from equity.

- BT will be able to plan its investment programme in relation to its own commercial judgement.
- The legislation will safeguard existing employee pension rights, and will in no way disadvantage employees or weaken their pension position. The Government cannot guarantee how pension arrangements will evolve in the future even in the nationalised industries.
- Employees will be able to buy shares in the firm for which they work.
- The US, where the telephone companies are privately owned, has seen a huge expansion in telephone networks and the numbers employed by telephone companies. BT too will have the opportunity to expand.
- Increased finance from borrowing will mean less finance from revenue. Today's customers will no longer have to pay higher bills to cover tomorrow's investment.
- Customers will, for the first time, have contracts which give them rights against BT. Consumer protection will be enhanced by the Office of Telecommunications.
- Labour ought not to accuse the Government of neglecting BT. Investment in telecommunications has been:

<u>Outturn</u>						<u>Planned</u>
£ million						
1976-7	1977-8	1978-9	1979-80	1980-1	1981-2	1982-3
816	844	993	1,215	1,545	1,898	2,380

Share price

It is of course against the Government's interest to see shares underpriced. There are however risks in pitching the price too high. Not only Government faces this problem - the recent share issue by STC was substantially oversubscribed. However, the Government will make every effort to ensure that the purchaser of shares and the taxpayer get a good deal.

BT results

Year ending March:	1979	1980	1981	1982
Profit £ million (on new accounting basis post-1980)	336.4	129.1	180.7 123.9	457.8
Real return on new assets revalued at replacement cost %	6.9	4.6	4.4	6.5
Turnover £ billion	3.2	3.6	4.6	5.7

Privatisation of British Shipbuilders

Legislation will be introduced which will remove present statutory obstacles to the introduction of private capital and also provide enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. This measure will allow the Government to fulfil its commitment to promote private ownership in the nationalised shipbuilding industry.

Background

In 1950, 42% of the world's new ships were built in British yards; by 1978 the figure had fallen to 4½%.

While output per person employed in manufacturing rose by 1.7% between 1976 and 1978, output per person employed in shipbuilding fell by 9%.

Falling productivity has meant falling market share, at a time when the total size of the market has also been falling.

Labour's nationalisation of Shipbuilding in 1977 was seen as: "The only way to ensure secure, long-term employment" (James Callaghan, "British Business", 8th July 1977).

At the same time, Labour introduced the Shipbuilding Redundancy Payments Scheme, indicating that they saw the need to reduce over-capacity and over-manning.

On April 4th 1979, Labour announced that losses of £100 million in 1979-80 would be tolerated, in order to retain 3¼% of world merchant shipbuilding output.

Lack of commitment to rationalise capacity and end wasteful subsidies damaged the industry. The present Government remains determined that support will be temporary and diminishing, and that viability will be regained.

Government assistance to BS has totalled over £600 million since the government took office. It comes in a number of forms:

1. Through the external financing limit (EFL) which covers losses and capital spending:

Year	1979-80	1980-1	1981-2	1982-3
EFL	£236 million	£76 million	£150 million	£123 million (announced)

2. Through the Intervention Fund (IF) which defrays up to 25% of the cost of building ships.

Year to July:	1980	1981	1982
IF assistance offered :	£65 million	£55 million	£45 million

3. Shipbuilding Redundancy Scheme. This has cost the Exchequer over £55 million to date, and has helped the industry shed 19,000 employees.

Recent BS results have been encouraging:

	1979-80	1980-1	1981-2
Loss before IF assistance	£174 mn	£85mn	
Loss after IF assistance	£110 mn	£41mn	£19.7m

The trading loss limit (after IF assistance) is £10 million for 1982-3. The Corporate Plan envisages break-even by 1983-4.

There has been welcome diversification.

Cammell Laird and Scott Lithgow have moved into offshore work, and Cammell Laird and Swan Hunter have moved into warship work.

Productivity has yet to regain the level before nationalisation. 1979 was actually worse than 1978, although there have been improvements since.

In 1981-2, BS increased its market share to 2.5%, the best result in any year since vesting day. BS has made this considerable progress against the background of severe recession. Only South Korea, the UK and W. Germany among the leading shipbuilding nations managed a higher order book in the second quarter of 1982 compared with the first, and the total world order book fell by over 1 million gross tonnes to 32.7 mgt. The UK share increased by 10,8000g tons to 1.07 million g tons.

Results for the various divisions in 1982-3 were:

<u>1982</u>	Turnover £000	Trading profit £000	Average number employed
Merchant Shipping Division	395,759	(36,177)	24,264
Warship Building Division	428,387	38,582	24,888
Engineering Division	71,372	(2,191)	4,123
Shiprepair Division	53,189	(9,493)	4,070
Offshore Division	134,769	(13,678)	8,645

1981 :

Merchant Shipping Division	368,853	(36,713)	25,763
Warship Building Division	408,418	32,177	25,396
Engineering Division	61,596	(12,271)	4,625
Shiprepair Division	57,100	(7,275)	4,611
Offshore Division	101,065	(20,024)	9,091

Figures in brackets denote losses.

Electricity and Nuclear Installations Bill

Legislation will be introduced which will fulfil the Government's commitment to allow the private supply of electricity as a main business. Mr Nigel Lawson, Secretary of State for Energy, announced on June 28 (OR Volume 26, Col. 228) that he proposed to remove the statutory bar on the private supply of electricity as a main business and had consulted interested organisations for their views. Equally important, the legislation will also encourage private generation, including industrial combined heat and power schemes, by enabling surplus electricity to be sold to Electricity Boards at a fair price and by allowing the existing transmission and distribution system to be used by private generators and suppliers on fair terms.

Another part of the legislation will amend the Nuclear Installations Act 1965 concerning the liability of nuclear operators for damage caused by nuclear incidents. The principal amendments will raise the statutory limits on the amount of compensation payable, to take account of past inflation.

Nationalised Industries' Finance

	(£m - cash)	
	<u>Contribution to capital spending from total internal resources</u>	<u>Total External Finance</u>
A. 1980-81		
March 1980 Budget Forecast	4043	2196
Outturn	2626	2900
B. 1981-82		
March 1981 Budget Forecast	4694	2390
Outturn	3593	2960
C. 1982-83		
March 1982 Budget Forecast	5002	2739
Outturn	?	?

(Source - Public Expenditure White Paper Cmnd 8494-11 pp. 74-8)

External_Financing_Limit

Industry	1982-83 External Financing Limit £ million
National Coal Board	962
Electricity (England & Wales)	-243
North of Scotland Hydro-Electric Board	9
South of Scotland Electricity Board	211
British Gas Corporation	-83
British National Oil Corporation	-85*
British Steel Corporation	350
British Telecom	320
Post Office and Girobank	-38
British Airways Board	-8
British Airports Authority	47
British Railways Board	897
British Transport Docks Board	-7
British Waterways Board	-39
National Bus Company	69
Scottish Transport Group	20
British Shipbuilders	123

* The British National Oil Corporation figure is an external financing requirement, and does not represent a formal limit. (Hansard, 7th April 1982, WA Col 379)

Labour policy on nationalisation

Labour's Programme 1982 states: "We have to demonstrate the practical benefits of common ownership, showing how public enterprises can be a spearhead for innovation and new investment, making clear the benefits to both workers and consumers, and exploring the best forms of organisation and different forms of common ownership". At least they concede that the practical benefits have not been demonstrated yet, despite over 30 years since Labour's nationalisation programme first got underway.

The programme also promises "a radical improvement in the service which these industries provide to the people who own them". Again, at least the present shortcomings are appreciated. Nevertheless, Labour plans to renationalise the businesses which the present Government has returned to the private sector, to undo everything which has been achieved in liberalising the state monopolies and to extend nationalisation into each important sector of industry.

The terms upon which renationalisation would proceed have been the subject of dispute within the Labour Party. Mr Benn told the House of Commons: "Both at the TUC Congress last year and the Labour Party Conference last year, we called...for the reacquisition of public assets without compensation". (Hansard, 10th November 1981, col. 499). However, the Right of the party appears to have succeeded in moderating this. Labour's Programme 1982 states that "shareholders should be repaid precisely the amounts which were paid for the assets at the time they were denationalised".

A still different form of words emerged from the last Labour Conference. The motion passed said that compensation would only be given: "on proven need and at a level which ensures that the recipients do not gain from their investment".

Labour will extend state ownership into the electronics industry. The Programme states: "GEC, which occupies a pivotal position in the British electronics and electrical engineering industries, will form an integral part of our public ownership programme." It also promises more state ownership in construction and building materials, pharmaceuticals, road haulage, major ports, and timber products. It states that existing nationalised industries will be allowed to diversify; and that "We are committed to take a majority stake in all existing and future North Sea oil fields". Mr Benn has warned: "It is long-term policy of the Labour Party to bring all oil into public ownership, including BP". (Hansard, 10th November 1981, col. 499). The 1982 Conference approved a motion which included a call for the nationalisation of 20 to 25 large companies.

At the Labour Party Conference in 1976, Mr Callaghan said that the NEC's proposal to nationalise the banks would be "an electoral albatross", (Blackpool, 24th September 1976). However, among proposals listed for consideration in Labour's Programme are: *A public stake in the banking system established by taking one or more major clearing banks into public ownership", and "An extension of public ownership into other parts of the financial system". The 1982 Conference threw out a motion to nationalise the banks, but only on a margin of 3.4 million votes for, 3.1 million against.

On the subject of the price to be paid for assets confiscated by the State. Labour's programme warns: "We have learned the lessons of past mistakes and will not overcompensate." It is suggested that shareholders could be compensated by government bonds which would have staggered periods of redemption.

Labour's plans for confiscation extend beyond their nationalisation proposals. They promise to: "provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprise into a workers' co-operative by acquiring the assets of the firm". There is no discussion of the need for consent from the owners of the enterprise, nor of the terms of compensation.

Alliance policy on nationalised industries

The SDP Green Paper No. 2 states: "If a (nationalised) industry is operating in a competitive environment and can viably be operated as a commercial concern, there is no overriding case for subjecting it to the sort of system of Government control which exists at present..... We propose therefore that the competitive industries should be set up as Companies Act companies and given an equity structure Even if the Government continued to hold the initial equity, there would be no objections to issuing further equity to private shareholders Ownership would gradually pass from public to private hands".

This is very similar except perhaps in its stress on gradualism, to the Government's policy. So is the SDP's policy, set out in the Green Paper, of increasing the pressure on the nationalised industries to be efficient, although it is unclear how this would be reconciled to their plans to introduce subsidies. The SDP agree with the Government that the State monopolies need to be kept under tight control.

However, the SDP and the Liberals voted with Labour during last year's debate on the address on a motion "regretting that the Gracious Speech contains proposals which, in putting private profit before public interest, strip the nation's North Sea oil and gas assets"

They voted against the Oil and Gas (Enterprise) Bill second reading and (with the exception of Christopher Brocklebank Fowler, who was then a Conservative and the Liberal Stephen Ross), against the British Telecommunication Bill second reading. The SDP did not exist on the latter occasion, but many SDP MPs voted as Labour MPs on this occasion.

It is therefore very difficult to ascertain whether the theory of the Green Paper commends itself to the Party in Parliament, and how it would be applied in practice.

Conservative Research Dept
32 Smith Square LONDON SW1

LMR/CR
8.11.82



10 DOWNING STREET

From the Private Secretary

15 November 1982

Dear Margaret,

PRIVATISATION

The Prime Minister was grateful for the Chancellor's minute of 9 November, in which he reported on the proposals put forward by Departments as regards potential candidates for privatisation in this and the next Parliament.

Mrs. Thatcher notes the conclusion of E(DL) that these proposals constitute a useful first step towards keeping up the momentum of the Government's privatisation efforts; she endorses the Chancellor's determination to avoid a situation, after the election, in which no further progress on privatisation can be achieved because insufficient work has been done at an early stage; and she has commented that she does not consider the list put forward as necessarily excluding possible further candidates.

I am copying this letter to the Private Secretaries to all members of the Cabinet, the Financial Secretary (H.M. Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
H.M. Treasury.

MR SCHOLAR

cc Mr Mount
Mr Walters

Prime Minister (1)

Please see me

Yes ✓ Chancellor's minute (attached)

Agree X?

PRIVATISATION

Ms 12/11

The Chancellor's note to the Prime Minister of 9 November reports the conclusions of E(DL), and summarises in the annex the current proposals for privatisation, in both this Parliament and the next.

We are as you know constantly reviewing the privatisation programme, and indeed Chris Monckton is making it a particular concern of his. We may be able to reach our own judgements shortly about possible further candidates for privatisation, other than those already identified by departments. As I have mentioned to you, one possibility is the Civil Service College.

For the moment I think the right course is, if the Prime Minister agrees, for you to reply to the Chancellor's office making two points:

(i) We strongly endorse the Chancellor's determination to avoid finding ourselves in a situation where we cannot make further progress, because insufficient work has been done at an earlier stage; and

(ii) While noting the present plans of departments, as summarised in the annex to the Chancellor's minute, we do not regard these plans as necessarily excluding possible further candidates, because the search for functions or organisations which could be better carried out in the private sector is a never ending one.

12 November 1982