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P.01142

PRIME MINISTER

Competition and Privatisation

(E(A))(83)13)

BACKGROUND

flag A

In his minute to you of 25 July the Chancellor of the Exchequer invited colleagues to put forward a detailed timetable for their privatisation candidates, so that a full privatisation programme could be drawn up for this Parliament.

flag B

2. Most colleagues have now submitted returns. The memorandum by the Chancellor of the Exchequer (E(A)(83)13) summarises the responses and suggests how the work necessary to draw up the privatisation programme should now be carried forward. The Chancellor seeks the agreement of the Sub-Committee to the following:

a. the pace of work on the privatisation programme should be accelerated; and more emphasis should be laid on adopting forms of privatisation which promote competition;

b. options for gas and electricity should be put forward quickly;

c. the Financial Secretary should pursue bilateral discussions with the main sponsor Ministers and draw up a coordinated programme of action for further discussion early in the New Year.

MAIN ISSUES

3. The purpose of the meeting is to discuss the privatisation programme and its objectives, and to decide on the administrative arrangements for drawing it up quickly and efficiently.

Objectives

4. The Sub-Committee may wish to consider the broad objectives of privatisation, specifically how much weight should be attached to:

- the sale of assets in order to reduce the PSBR;
- the promotion of a more competitive environment; and
- other objectives, such as securing the wider ownership of assets.

- decision to be taken at a commercial and political level.

Views on this will affect both the pattern and the timing of the privatisation programme.

5. E(A)(83)13 argues that more weight should be given to increasing competition in order to improve resource allocation and efficiency. Certainly it is a prime aim of the privatisation programme to increase competition. On the other hand, setting up a satisfactory competitive regime is likely to take time (especially if it requires legislation); this will defer receipts and the benefits of transfer to the private sector which do not depend on full competition (eg the stimulus to efficiency from the threat of bankruptcy or takeover). Other relevant considerations are as follows.

i. The receipts from the sale of assets will be higher if the industry enjoys a monopoly position.

ii. Resistance to privatisation from employees and management is likely to be less.

But neither of these arguments would be easy to defend in public or to reconcile with the Government's wish to foster competition.

6. There are also other points which the Sub-Committee will wish to take into account.

iii. It is desirable to spread the ownership of assets.

iv. Sometimes existing management and employees are the only likely buyers of public sector assets. But leaving the existing management and staff in place, especially if this is not coupled with a significant increase in competition, may do little to improve performance. Is a change of management intrinsically desirable, other things being equal?

But their own savings are at stake.

7. It will be helpful for the conduct of the proposed bilateral discussions between the Financial Secretary and other Ministers if the Sub-Committee can give guidance on the priorities to be attached to these sometimes conflicting considerations. However, the eventual substantive decisions are bound to turn on the circumstances of individual cases; and general guidance at this stage is unlikely to be decisive. You may therefore wish to invite the Chancellor of the Exchequer to bring forward, when the Financial Secretary has completed his bilateral discussions, a programme which seeks to maintain a reasonable balance between the conflicting considerations, and which identifies for specific decision any particular cases where the conflict of priorities is difficult to resolve.

Particular cases

7. It is likely that any substantial programme of privatisation, whether designed to maximise receipts or to increase competition, will need to include certain candidates, particularly from the monopoly utilities such as gas and electricity. E(A)(83)13 singles these out for mention; the Sub-Committee will wish to

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discuss their prospects for early privatisation. It would also be useful to establish whether there are any other industries which the Sub-Committee regard as having similar priority.

Procedure and timetable

8. It is unlikely that the Sub-Committee will dissent from the proposal that the Financial Secretary should hold bilateral discussions with his colleagues, or will take serious issue with the suggested aim of further discussion early in the New Year. You will no doubt wish to stress the need to make good progress.

Legislative considerations

9. The Financial Secretary's discussions will need to pay full regard to potential bottlenecks in the legislative programme. The returns from departments annexed to E(A)(83)13 suggest that perhaps 10 of the "major privatisation candidates" might need fresh legislation; the number could well be significantly higher if the "other privatisation candidates" were included. It cannot be taken for granted that room can be found without difficulty in the programme for legislation on this scale. That supports the Chancellor's proposal that a detailed programme of action should be drawn up. You may wish to invite him to consult the Lord President of the Council and the Lord Privy Seal on the implications for the legislative programme before he puts forward further proposals to the Sub-Committee.

HANDLING

10. You will wish to invite the Chancellor of the Exchequer to introduce the discussion. The Secretaries of State for Energy, Scotland, the Environment, Trade and Industry and Transport and Mr Pattie (in the absence of the Secretary of State for Defence) may wish to comment on the major privatisation candidates for which they are responsible. The Lord Privy Seal may wish to offer some preliminary comments from the standpoint of the legislative programme.



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CONCLUSIONS

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

i. the need to press ahead with work on the privatisation programme;

ii. so far as guidance can usefully be given at this stage, the relative priority to be attached to sales receipts, early privatisation, increasing competition, and other objectives;

iii. whether the Financial Secretary should now hold bilateral discussions with sponsoring Ministers with a view to a further report to the Sub-Committee in the early New Year;

iv. the matters to be covered in such a report, for example:

- the need to identify for specific decisions any cases where there is a conflict of priorities;
- the legislative implications;

v. whether specific options for

- gas and electricity;
- any other industries

should be produced more quickly.

PL

P L GREGSON

25 October 1983

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PRIME MINISTER

Rather than discussions of particular cases, except gas and electricity, Treasury are looking to secure a strong mandate for John Moore in his bilaterals.

I suspect talk of bottlenecks in the legislative programme and congestion in the capital markets may be alarmist. The problem may be getting Departments to work up proposals.

As agreed I have sent the Policy Unit note (Flag C) to E(A) colleagues but with the note on BL to Norman Tebbit only. He is seeing BL later this week and will not have been able to make up his mind whether the Department's approach is too soft.

John Redwood wishes to attend for Policy Unit. Agree?

Yes

AA

26 October 1983