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Prime Minister (2)

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From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

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November 1982

Dear Geoffrey,

PRIVATISATION

My colleagues and I have carried out a thorough review of my Department's activities to see what can be transferred to the private sector. I have also reviewed the possibility of abandoning some activities altogether.

I see scope for substantial advance in three areas: British Airways; airports; and export credit insurance.

We have already agreed to privatise British Airways and announced our decision. Enabling legislation - the Civil Aviation Act 1980 - has been passed; I shall shortly put proposals to E(NI) on the necessary capital restructuring, which would require a short Bill; we shall then have to take decisions on the timing of flotation.

I am very concerned about this and its effect on B. Col
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On airports, our objective is clear: to minimise Government involvement in their ownership and operation.

I aim to dispose of some or all of the Civil Aviation Authority's aerodromes in the Highlands and Islands of Scotland (with a continuing Scottish Office grant) to the airlines who use them. One or two disposals of this kind may be possible before the Election.

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From the Secretary of State

We have agreed that we cannot privatise the British Airports Authority's airports in the short-term because of the uncertainties arising from the current litigation by airlines and, to a lesser extent, the public inquiries into the expansion of the South East airports. But we are actively investigating the scope for introducing private sector finance into the Authority's investment programme, starting in this Parliament.

The Authority's airports are, however, clear candidates for privatisation in the next Parliament. This will raise a series of problems, which we have already started to work our way through. We are also looking at the future ownership of local authority airports in connection with Michael Heseltine's exercise on the metropolitan authorities, and considering whether local government should be in the airport business at all.

ECGD provides, in the field of export credits, an insurance and financing service. Although the latter is now largely privatised in the sense of the banks serving exporters with all the funds needed (other than interest rate subsidy) under simple ECGD guarantees, the private sector has developed very little in the way of competitive or supplementary export insurance facilities. Governments cannot escape involvement in the political risks of such insurance; but there should be scope for devolving some of ECGD's operations on the United Kingdom private sector. Also, in contrast to independent enquiries in the mid-50s and early-70s, an E & AD Departmental "efficiency audit" favours ECGD changing from Departmental to public corporation status. These findings are due to come before the PAC shortly. A recently-published CBI report has made similar recommendations.

We shall therefore be undertaking a fundamental review of ECGD's future organisation and functions, which will cover the scope for privatisation. But if substantive changes appeared possible legislation would be needed and implementation would then have to be left to the next Parliament.

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In addition to these three major areas, our review has identified several other functions which might be discontinued or substantially devolved to the private sector. Individually they are minor - even very minor - variants on the privatisation theme, whether judged in terms of staff or of expenditure, but collectively they offer promise of a useful slimming down of the scope of the Department's activities. The areas where I am looking for progress, in most cases starting in this Parliament, are:-

- discontinuing film industry controls as rapidly as political considerations allow;
- further reducing our involvement in seamen's conditions of service;
- further devolvement of ship surveys and marine equipment approval to classification societies;
- further devolvement of the actual setting and conduct of seafarers' examinations;
- devolving from the Companies Registration Office the issue of copies of company documents after they have been registered;
- devolving from the Patent Office the publication and distribution of patent specifications;
- devolving to private sector bodies (eg Chambers of Commerce) the administration of the British Overseas Trade Board's Outward Mission Scheme, which organises overseas visits for groups of businessmen to seek export opportunities; and

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- an expansion of the revenue earning activities of the Simplification of Trade Procedures Board (SITPRO) leading, perhaps three years hence, to its conversion to a private sector body operating on an essentially commercial basis.

I would take this opportunity to mention one other possible candidate for privatisation, namely the Meteorological Office. This falls within John Nott's responsibility but the industries for which I am responsible pay a substantial part of the cost. The industry's principal representative body, the British Civil Aviation Standing Conference (BCASC), has suggested that some or all of the Met Office's activities could be transferred to the private sector. BCASC believe that market pressures would increase the Met Office's cost-effectiveness and accountability to its customers. I have written to John Nott expressing the hope that as the Minister responsible he will take the same view.

I am sending a copy of this letter to the Prime Minister, to the other members of E(DL), to John Nott and George Younger, and to Sir Robert Armstrong.

LORD COCKFIELD

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bcc J Vereker

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10 DOWNING STREET

From the Private Secretary

3 November, 1982

British Airways: Privatisation

As I mentioned to you earlier today, the Prime Minister has decided that the consideration of British Airways' privatisation should take place not in E(NI) but in a smaller group which she will chair. Arrangements have been made today to set up such a meeting.

The Prime Minister is concerned about the proposal for a capital restructuring of British Airways. She has commented that there will be serious implications for British Caledonian and that she hopes that your Secretary of State's paper for the meeting will take full account of this.

I am sending a copy of this letter to Margaret O'Mara (H.M. Treasury), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

M. G. SCHOLAR

John Whitlock, Esq.,
Department of Trade

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