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Policy Unit

PRIME MINISTER

At your meeting tomorrow with the Chancellor, you might like to raise the question of funding and possible equity sales.

The privatisation programme is being delayed. Jaguar has slipped by 2 months, and Enterprise Oil is also slower than originally planned.

However, in the wake of the Budget - which has been taken by the City as a very positive series of measures for the company sector - the equity market has been strong, whilst the gilt market has done very little. The Bank of England, in a paper last year, said that the UK equity market could absorb up to £200 million of sales per week. The total new issues by companies sold into the market so far this year is only £100 million.

The case for selling some Government equity seems overwhelming, particularly given the Bank's uncertainties about selling gilts aggressively. There are only two candidates where additional shares could be offered relatively quickly.

The first is Britoil. The argument against is that it would make the sale of Enterprise Oil more difficult. The argument for is that £100 million or £200 million of Britoil shares could be sold quite quickly by means of a placement, and this level of sale should not disrupt the oil market sufficiently to damage the Enterprise Oil sale unduly.

An even better prospect is to sell 24 per cent of British Aerospace. They issued their results to the Stock Market today. This should enable the Government to counter any allegations of "insider trading" which Norman Tebbit has used as an argument to resist selling so far. Some people also believe a special share has to be voted through an EGM to protect British Aerospace from foreign predators before selling any more shares in the Corporation. All due speed should be made to vote such a share through, so that additional shares in the Corporation could be sold; or alternatively, 24 per cent sold, retaining the 25 per cent Government holding as a blocking mechanism prior to the establishment of a special share.

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The advantage of selling British Aerospace shares after their results is that it goes some way to cutting back Government risk following the assumption of considerable risk by agreeing to back the Airbus project. This is a highly contentious issue between Treasury and DTI, but we would side with the Treasury in favour of an early sale. 24 per cent would raise about £100 million.



JOHN REDWOOD