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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB COMMITTEE ON ECONOMIC AFFAIRS

COMPETITION & PRIVATISATION

Memorandum by the Chancellor of the Exchequer

1. Privatisation, combined with increasing competition, is a major feature of our economic strategy. The programme we have set ourselves is complex and demanding. To achieve it will require sustained effort and careful coordination. My minute of 25 July to the Prime Minister asked colleagues to let me have time-tables for each of their major privatisation candidates. This note summarises the responses and proposes how the programme should now be pursued.

The Future Programme

2. The present position on the major privatisations expected in this Parliament is summarised in the attached Annexes which are based on colleagues' responses to my minute. We cannot be satisfied with the overall picture that they show. Many of the candidates have been under consideration for much of the last Parliament. Yet in several cases, points of principle still need to be resolved.

3. We must accelerate the programme. As I said in my minute, after 3-4 years in the life of a Parliament, the approaching General Election makes further sales difficult. So it is later than we think. The lead time for major privatisations is such that early decisions are vital if we are to fulfil our Manifesto commitments.

4. It is also apparent that major bottlenecks may arise in the legislative programme and in the equity market. Delays on one privatisation may cause repercussions elsewhere and we shall need early

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decisions on queuing and priorities. The scale of the individual sales adds to the difficulties both of planning and of implementation. Because of its size, British Telecom is the major element in the programme during the first half of this Parliament. Gas and electricity are of comparable size. It is therefore vitally important that early decisions are taken about the future of these two industries. I am glad that Peter Walker has urgent studies in hand and hope that he and George Younger will be able to bring forward some options for both these industries before the end of this year.

Competition

5. In the short term, receipts from the privatisation programme are of clear benefit to the PSBR. But the major advantages to the economy as a whole arise if privatisation increases competition, improves resource allocation and helps eliminate inefficiencies. My minute of 25 July emphasised the attention we must pay to reducing monopolies and to the structure of privatised companies. This aspect is crucial; but the Annexes suggest that insufficient account has so far been taken of it. We must ensure that it is given sufficient weight and emphasis. And where full privatisation is not yet feasible, steps should be taken wherever possible to increase the competitive environment within which industries operate and to apply commercial disciplines similar to those in the private sector. These steps take time to accomplish, as our current experience with British Telecom demonstrates. That is why we must have an early opportunity to address the issues and take collective decisions in each case.

6. As a next step I propose that the Financial Secretary should follow up the individual responses with the sponsor Ministers directly concerned in order that gaps can be filled in and a coordinated time-table drawn up setting out a programme of action over the next 4 years. Once this has been done and the results endorsed by Ministers collectively, progress can be monitored so as to ensure that our collective objectives are in practice achieved. The Financial Secretary will aim to complete his discussions by Christmas and to report to us early in the New Year.

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7. I invite colleagues:

- (i) to note the need to accelerate the pace of work on the privatisation programme, giving particular weight to the need to increase competition;
- (ii) to agree that options for gas and electricity should be put forward quickly, if possible before the end of the year;
- (iii) to agree that the Financial Secretary should pursue bilateral discussions (to be completed by Christmas) with the main sponsor Ministers and draw up a coordinated action timetable for discussion early in the New Year.

N.L.

HM TREASURY
20 October 1983

MAJOR PRIVATISATION CANDIDATES
[details follow]

Ministry of Defence

1. Royal Ordnance Factories

Department of Energy

2. British Nuclear Fuels Ltd
3. British Gas Corporation
4. Enterprise Oil
5. Electricity (England and Wales)

Department of the Environment

6. Regional Water Authorities

Department of Trade and Industry

7. British Leyland
8. British Shipbuilders
9. British Steel Corporation
10. British Telecom
11. Rolls Royce
12. Post Office and National Girobank

Department of Transport

13. British Airports Authority
14. British Airways
15. Civil Aviation Authority
16. National Bus Company
17. Sealink UK Ltd

Northern Ireland Office

18. Shorts

Scottish Office

19. Scottish Electricity Board
20. Scottish Transport Group

OTHER PRIVATISATION CANDIDATES

RESIDUAL SHAREHOLDINGS

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MINISTRY OF DEFENCE

ROYAL ORDNANCE FACTORIES

[No details yet supplied]

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DEPARTMENT OF ENERGY

BRITISH NUCLEAR FUELS LTD

I Preliminary decisions in principle that need to be taken

A collective decision whether or not to go ahead with privatisation would be required: this would need to confirm the main lines to be followed, eg the percentage of shares to be sold and the basis of continuing Government relationship with the company.

II Need for legislation

Possibly not, but this would depend crucially on the form of privatisation.

III Need for structural change

Probably none.

IV Need for personnel policies

Special arrangements might be needed to attract the right top management for privatisation.

V Stage reached to date

The merchant banks have given preliminary advice on the feasibility of privatisation. But advisers have not yet been appointed to work on the exercise itself.

VI Expected date of privatisation

Any sale could not take place before late 1985; it would assume the success of BNFL's heavy investment programme.

VII Likely receipts

It is too soon to value the equity to be sold.

DEPARTMENT OF ENERGY

BRITISH GAS CORPORATION

I Preliminary decisions in principle which need to be taken

II Need for legislation

Major legislation would be required.

III Need for structural change

IV Need for personnel policies

V Stage reached to date

The Department of Energy are carrying out a study on the possibilities of privatising gas. The Secretary of State will report any proposals as soon as possible.

VI Expected date of privatisation

1986-87

VII Likely receipts

DEPARTMENT OF ENERGY

ENTERPRISE OIL

I Preliminary decisions in principle that need to be taken

Decision to sell these assets already taken, announced 19 October 1981.

II Need for legislation

Already obtained - Oil and Gas (Enterprise) Act 1982

III Need for structural change

i) Already effected as regards the oilfield interests by a scheme under the 1982 Act.

ii) To be effected as regards BGC's oil prospective exploration acreage by a further scheme under that Act, which should be in force by December 1.

IV Need for personnel policies

No general policy decisions required (no staff were transferred with the assets) but individual directors' appointments will need to be considered in the normal way.

V Stage reached to date

The oilfield interests are now vested in a company owned by the Secretary of State. An interim management in place: the recruitment of permanent management is being pursued urgently. The exploration acreage will be transferred to the Secretary of State after the coming into effect of the scheme referred to in part III(ii) and it is envisaged that it will then be combined with the oilfields for a single company flotation. Merchant bank, legal and accounting advisers and headhunters have been appointed. Brokers are to be appointed soon.

VI Expected date of privatisation

The aim is for 100% sale of equity as early as possible in the second quarter of 1984.

VII Likely Receipts

Provisional value might be around £400m or more

DEPARTMENT OF ENERGY

ELECTRICITY (ENGLAND AND WALES)

I Preliminary decisions in principle which need to be taken

II Need for legislation

Major legislation would be required.

III Need for structural change

IV Need for personnel policies

V Stage reached to date

The Department of Energy are carrying out a study on the possibilities of privatising electricity. The Secretary of State will report any proposals as soon as possible.

VI Expected date of privatisation

1986-87

VII Likely Receipts

DEPARTMENT OF THE ENVIRONMENT

6. REGIONAL WATER AUTHORITIES

I Preliminary decision in principle that need to be taken

II Need for legislation

III Need for structural change

IV Need for personnel policies

V Stage reached to date

The DOE feel that the RWA are unsuitable for early privatisation. The way they raise their revenues leaves the public open to exploitation unless they are subject to constant scrutiny. They also have some regulatory and operational responsibilities, such as pollution control and flood protection, which by their value cannot be profit-orientated. However, the DOE are seeking to improve efficiency through better management, more competitive contracting out, demanding performance aims and new consumer arrangements. Capital financing by the private sector is a possibility.

VI Expected date of privatisation

VII Likely receipts

DEPARTMENT OF TRADE AND INDUSTRY

BRITISH LEYLAND

I Preliminary decisions in principle that need to be taken

BL are now drawing up plans for the sale of stakes in Jaguar and Unipart in 1984. In the former case, complete sale could happen in 1985. The Board are being pressed on plans for privatising Land Rover. The timing is more uncertain because of the problems of Leyland Trucks.

II Need for legislation

No.

III Need for structural change

No structural changes are needed.

IV Need for personnel policies

No new personnel policies need to be developed.

V Stage reached to date

BL have been asked to submit an updated strategy on privatisation and this is expected in the next month or so in the context of their 1984 Corporate Plan.

VI Expected date of privatisation

Progress on Jaguar and perhaps Unipart may be possible in 1984 but BL as a whole are unlikely to be sufficiently attractive to investors until the end of the decade. BL have initially proposed that about 25 per cent of Jaguar shares, worth about £50m, should be placed with institutions in 1984, and that the remainder of the shares should be floated in 1985.

DEPARTMENT OF TRADE AND INDUSTRY

BRITISH SHIPBUILDERS

I Preliminary decisions in principle that need to be taken

DTI hope that collective decisions can be taken by the end of 1983 on what method to use in privatising warshipbuilding and on other privatisation possibilities in the light of the Corporate Plan. BS have decided to dispose of or close all shiprepair facilities during 1983-84 with the exception of Vosper Shiprepair, on which a decision cannot be taken until April-June 1984 for contractual reasons.

II Need for legislation

Enabling legislation has been passed.

III Need for structural change

Restructuring is unnecessary: the subsidiaries can be sold off piecemeal if desired.

IV Need for personnel policies

The implication for redundancy arrangements will have to be considered.

V Stage reached to date

Schroder Wagg are advising DTI on warshipbuilding and their report is expected soon. Once decisions have been taken on the method, DTI hope to start disposal in April-June 1984.

DEPARTMENT OF TRADE AND INDUSTRY

BRITISH STEEL CORPORATION

I Decisions in principle that need to be taken

Work on joint ventures and non-mainstream businesses is in hand, but a key decision has to be taken on the future configuration of the five major integrated sites including the possibility of closing one or more sites. This decision should precede any question of privatising these sites.

II Need for legislation

No.

III Need for structural change

Companies Act companies need to be set up within BSC.

IV Need for personnel policies

Implications for redundancy arrangements need to be considered.

V Stage reached to date

Efforts continue to establish joint ventures with the private sector in areas where they overlap with BSC: for example the 'Phoenix II' discussions on engineering steels may result in a merger between BSC and GKN's interests by 1 January 1984. Other discussions are under way on tubes, light sections and springs. In addition, BSC are exploring the outright disposal of certain non-mainstream activities, such as Stanton and Staveley, RGC Offshore and PED Ltd (total turnover £195m).

For the five major integrated sites the only current possibility appears to be the joint venture with US Steel for Ravenscraig. Otherwise prospects rest on the hope that BSC will return to profitability and that interested partners for the sites, individually or collectively, might be found in the UK or overseas.

On the main stream businesses, the BSC Chairman has been asked to examine the prospects and will probably report in the next Corporate Plan, due at the end of 1983.

VI Expected date of privatisation

Progress is likely on joint ventures and non-main stream activities in 1984 but it is difficult to anticipate the City being interested in the major integrated sites for several years.

DEPARTMENT OF TRADE AND INDUSTRY

BRITISH TELECOM

I Decisions in principle that need to be taken

The main decision outstanding concerns whether the controlling stake should be sold in one or two tranches.

II Need for legislation

DTI aim to secure Royal Assent to the legislation by Easter 1984.

III Need for structure change

No structural changes are necessary.

IV Need for personnel policies

The question of pension rights is in hand.

V Stage reached to date

DTI aim to float shares on the market in the autumn of 1984. For planning purposes DTI are assuming that the controlling stake will raise £4 billion, with receipts spread over some forward period.

DEPARTMENT OF TRADE AND INDUSTRY

ROLLS - ROYCE

I Preliminary decisions in principle that need to be taken

A preliminary decision will be required on whether to sell any of the Industrial and Marine Division separately in advance of wholesale privatisation. The Chairman has been asked to consider this possibility although he may conclude that the Division's activities are too closely integrated into the rest of RR to be suitable for separation.

II Need for legislation

No.

III Need for structural change

No structural change would be required.

IV Need for personnel policies

No new personnel policies are required.

V Stage reached to date

Timing of the privatisation of the rest of RR which must be regarded as a whole depends largely on how soon the company can return to profitability and demonstrate attractive prospects to investors. RR have been asked to aim towards privatisation which DTI hope would be possible in 1987 or 1988.

DEPARTMENT OF TRADE AND INDUSTRY

POST OFFICE AND NATIONAL GIROBANK

- I Preliminary decisions in principle that need to be taken
- II Need for legislation
- III Need for structural change
- IV Need for personnel policies
- V Stage reached to date

The Post Office is profitable overall and not subject to international competition in most of its businesses. Difficulties stem from the role which the Post Office plays in the community, and the difficulty of moving away from the cross-subsidisation of rural mail deliveries and counter services. As a first step DTI propose to ask the Post Office to account separately for the different component businesses and possible to move to establishing separate Companies Act companies where appropriate. This will enable DTI to determine whether the counters business is profitable overall or could be made profitable by an acceptable change in the size of the counters network. It will then be possible to decide what scope there is for privatisation. Girobank has been identified as a possible early candidate, but its operations are crucially dependent upon the counters network as its retail banking outlet, and no decision could be taken on Girobank until a decision has been taken on the future of the counters. DTI also intend that the Monopolies & Mergers Commission should look at counters next year.

In the mean time it is hoped that more rapid progress will be made on setting up joint ventures between the Post Office and private

sector firms - for example an automation of the counters - and DTI are encouraging the Post Office to pursue such possibilities.

VI Expected date of privatisation

VII Likely receipts

DEPARTMENT OF TRANSPORT

BRITISH AIRPORTS AUTHORITY

I Preliminary decisions in principle which need to be taken

- i) Whether the Authority (which controls three airports in South East England and four airports in Scotland) should be privatised as a single company, or whether there would be any advantage in sub-dividing it;
- ii) Whether franchising airports, or individual terminals, might engender more effective competition;
- iii) What sort of regulatory framework would be required to prevent abuse of monopoly power and, possibly, to secure an efficient distribution of traffic;
- iv) to what extent consultation may be necessary.

II Need for legislation

Primary legislation would be required for outright disposal, and would probably be needed for a significant extension of franchising.

III Need for structural change

No decision has yet been taken.

IV Need for personnel policies

- i) If the BAA is privatised as a single unit, a policy on the funding of increases in pensions in payment will be needed.
- ii) If the Authority were to be split, policies on the redeployment of headquarters common service division staff would also be needed.

V Stage reached to date

The BAA Board have submitted a first memorandum giving their views on all privatisation and franchising options, and recommending that

they should be privatised as a whole. All structural options are still being examined. No city advisers have yet been appointed, but early advice on the structural options and the market effects of any regulatory framework could be useful.

VI Expected date of privatisation

Legislation to privatise the BAA could not be enacted before the 1984-85 session. It is unlikely that a flotation could take place before 1986. The scale on which equity could be sold has not yet been decided.

VII Likely receipts

Dependent on scale on which equity sold.

DEPARTMENT OF TRANSPORTBRITISH AIRWAYSI Preliminary decisions in principle which need to be taken

- i) how BA's insolvent balance sheet should be rectified;
- ii) whether this could be done without legislation;
- iii) how soon action should proceed. (Collective discussion will be needed.)

II Need for legislation

Uncertain - see iii) above.

III Need for structural change

None.

IV Need for personnel policies

Changes in pension arrangements to make them more acceptable to private investors (already in hand).

V Stage reached to date

Legislation has been passed for the vesting of BA's businesses in BA plc and for the flotation (Civil Aviation Act 1980); merchant bank advisers are appointed; the BA Board has restored the airline to profitability.

VI Expected date of privatisation

Sale of controlling interest in BA's equity in autumn of 1984 at earliest (but timing will depend on answers to I above).

VII Expected receipts

DEPARTMENT OF TRANSPORT

CIVIL AVIATION AUTHORITY - Airports

I Preliminary decisions in principle that need to be taken

- i) whether the airfields, which with one exception are unprofitable, can be offered in a way which will attract private investment;
- ii) to what extent Scottish Office should continue to subsidise their operation;
- iii) whether CAA should be compensated for any loss they incur as a result of the disposal.

II Need for legislation

Legislation is not required.

III Need for structural change

None required. The aerodromes would be sold as items of real estate (subject to conditions on their use) and not as complete businesses.

IV Need for personnel policies

It is unlikely that potential purchasers will want to employ the current workforce on the basis of their existing contacts. Some will be redeployed within the CAA. The remainder (about 100) will probably be made redundant.

V Stage reached to date

Interim reports on the preparations for the sale have been received from both the CAA and their merchant bank advisers. These are being considered by the Department of Transport and the Scottish Office.

VI Expected date of privatisation

The CAA should be in a position to advertise the aerodromes before the end of the year.

VII Likely receipts

The book value of the assets is £6.0m but, as only one of the seven aerodromes (Sumburgh) has ever covered its operating costs under CAA management, the sale is expected to realise a fraction of this. For some aerodromes a continuing subsidy may be required.

DEPARTMENT OF TRANSPORT

16. NATIONAL BUS COMPANY

I Preliminary decisions in principle that need to be taken

- i) Whether to privatise or de-regulate services subject to licensing.
- ii) Whether to privatise NBC as a whole or split it up.
- iii) Effects on rural areas. Paper for E(DL) in October.

II Need for legislation

Primary legislation is required.

III Need for structural changes

Decisions on structure to be taken (see II(ii) above).

IV Need for personnel policies

No major issues.

V Stage reached to date

Preliminary report from the Board's advisers recommends management buy-out. Confirmed by merchant bank report to Department, but advisers not yet retained.

VI Expected date of privatisation

Management buy-out could be achieved shortly after legislation which could not be enacted before 1984-85 session. It is unlikely that other options could be achieved before 1986.

VII Likely receipts

The scale on which equity could be sold depends on method of sale, but may be less than 100 per cent initially.

DEPARTMENT OF TRANSPORT

17. SEALINK UK LTD

I Preliminary decisions in principle that need to be taken

Government and British Railways Board agreed in 1980 to privatise Sealink. BRB are in the lead in devising the method but the Secretary of State's consent will eventually be required.

II Need for legislation

Powers to enable BRB to sell subsidiaries taken in the Transport Act 1981.

III Need for structural change

No structural change needed if Sealink is sold as an entity. There is no natural monopoly of the shipping operation, but Sealink owns a number of ports (eg Folkestone, Newhaven, Holyhead). The current policy, publicly stated, is to seek to privatise Sealink to be split between ports and shipping. This would take longer and it might lower the proceeds from the sale.

IV Need for personnel policies

No particular personnel policies needed.

V Stage reached to date

BRB, in light of advice from Merchant Bankers Morgan Grenfell, due to put to Ministers this Autumn their view on whether to proceed at once at a negotiated sale with a single company or a consortium of some kind, (to be completed early 1984) or whether it would be better to delay possibly with a view to a public flotation in late 1984.

VI Expected date of privatisation

Date of privatisation not yet decided. BRB may wish to retain a minority shareholding.

VII Likely receipts

NORTHERN IRELAND

SHORTS

I Preliminary decisions in principle that need to be taken

(i) How to move the company from its present loss-making position into profit in the near future.

(ii) Whether to privatise Shorts as a whole or split it up.

II Need for legislation

No.

III Need for structural changes

Depends on whether decision taken to privatise whole or in parts.

IV Need for personnel policiesV Stage reached to date

Ministers will be considering the company's 1983 business plan in 1983 or early 1984. If the business plan predicts reasonably healthy profits, the most likely option could be disposal at approximately market rates a couple of years thereafter. Another option could be to dispose at an earlier date, incurring a discount, and therefore any dates from 1984 to 1986 would be theoretically possible. If the Company's missile systems division alone were to be sold, this could be achieved at an early date but the Northern ^{do} Ministers / not favour such a break up of the Company and consider/ ^{that} confidence in the fact that any new owner would wish to maintain the size and

location of the Company's activities would be a vital consideration. The disposal of the company as a whole is most likely to be achieved by sale to an industrial grouping involved in the aerospace or a related field.

VI Expected date of privatisation

Date of privatisation not yet decided (see V above).

VII Likely receipts

The nominal value of the Government's shareholding is £65m excluding the very high value of the loans outstanding, the net Balance Sheet value of the shareholders fund being minimal.

SCOTTISH OFFICE

SCOTTISH ELECTRICITY BOARDS

I Preliminary decisions in principle which need to be taken

II Need for legislation

III Need for structural change

IV Need for personnel policies

V Stage reached to date

i) The principles on which the tariffs for selling electricity to the Boards and making use of the grid for distribution will be based are to be announced shortly.

ii) The Chairmen of SSEB and NSHEB are to report the prospects for the injection of private capital into their businesses to the Secretary of State for Scotland by the end of March 1984.

VI Expected date of privatisation

The Scottish Office feel that it would be premature at this stage to consider the privatisation of the main generating and distributing activities of the Boards.

SCOTTISH OFFICESCOTTISH TRANSPORT GROUP

- I Scope for privatisation
 - II Preliminary decisions in principle which need to be taken
 - III Need for legislation
 - IV Need for structural change
 - V Need for personnel policies
 - VI Stage reached to date
- The Secretary of State for Scotland will submit a paper outlining the possibilities for privatising the STG shortly.
- VII Expected date of privatisation
 - VIII Likely receipts

(II) OTHER PRIVATISATION CANDIDATES

[Details not provided or minor candidates]

A - Ministry of Agriculture, Fisheries & Food

Covent Garden Market Authority : No details supplied

B - Ministry of Defence

Rocket Motor Organisation : No details supplied

Military Vehicles & Engineering Establishment : Devolution to the private sector will take place during 1984-85, and the only uncertainty is one of scale.

Staff Hostels : PSA's present assessment is that the hostels are unlikely to be an attractive commercial proposition to any outside agency.

DYRMS Dover and QVS Dunblane Military Schools : Deloitte, Haskins & Sells are carrying out a study into ways of reducing the schools' dependence on public funds, and the possibility of privatisation will form part of the study.

C - Department of Energy

National Coal Board - subsidiaries : Secretary of State in discussion with Chairman of NCB about the scope for disposal.

National Coal Board - opencast mining : No details supplied.

Government Pipeline & storage system : Secretary of State for Energy to discuss with Secretary of State for Defence whether a fuller study of privatisation options should be undertaken.

D - Department of Transport

British Rail Engineering Ltd : Chairman of BR considering the privatisation of BREL in the context of the draft Chairman's Brief. Secretary of State to report his reaction to colleagues.

Public Trust Ports: Possible change of status. No details supplied.

E - Department of Trade & Industry

(i) Export Credit Guarantee Department : An independent committee has begun to review ECGD's structure, functions and status, including the scope for privatisation. Its report to Ministers is due in the New Year.

(ii) Statutory Tourism Boards : The comprehensive review of tourism policy has examined the roles of the statutory boards. Although they are unlikely to be early candidates for privatisation, DTI expect to put conclusions on the review to colleagues later this month, with a view to making an announcement to Parliament soon after it reassembles.

(iii) Simplification of International Trade Procedures Board : The Chairman is looking during this financial year at the options for developing SITPRO, although it is too early to say whether privatisation would be the preferred option.

(iv) Warren Spring Laboratory : The possibility of more private sector funding for the work of Warren Spring Laboratory is being studied and a report is due at the end of 1983.

(v) British Technology Group : BTG is under a duty to dispose of all its investments as soon as commercially practicable; with over sixty separate investments this will have to be phased.

F - Welsh Office

Cwmbran Development Corporation : The winding-up of the Cwmbran Development Corporation and the disposal of its remaining assets. This might involve about £10m next year with, perhaps, up to a further £12m by the wind-up date.

Welsh Development Agency & Development Board for Rural Wales : Disposal of assets involving roughly £11m in each of the next 3 years.

(III) RESIDUAL SHAREHOLDINGS

I. Associated British Ports

Government holding is 48.5 per cent of the issued ordinary share capital valued at £30 million. Decision in principle required on whether to go ahead with early sale. There is a need to consider the effect of a possible national dock strike, eg as a result of action to deal with the problems of the PLA. Timing is subject to market constraints and the situation in the industry. Advisers need to be consulted on method of sale and whether to market the whole of the residual holding or whether sales should be phased.

II. British Aerospace

23 per cent (present value £75m) out of the remaining 48.4 per cent shareholding could be sold. DTI consider that, to maximise proceeds it would be worthwhile waiting for an improvement in the companies performance and ideally for a pick up in worldwide civil aircraft sales, and suggest reviewing possibilities after a decision is taken on launch aid for the Airbus A320, likely at the end of the year.

III. BP

The Government holding in BP has been reduced to some 32 per cent of the issued Ordinary share capital. This holding is worth some £2,500 million at current market prices. However, the Government is committed not to sell more shares for at least two years from the date of the offer, ie before September 1985. A further consideration is that if the Government's holding in future fell below 24 per cent, it could no longer be sure of blocking changes to the provisions in the Company's Articles conferring special privileges on the Government, including the right to appoint Government directors and veto powers.

IV. Britoil

The Government holds some 49 per cent of Britoil's issued Ordinary share capital, worth some £550 million at current market prices.

There is no formal commitment impeding further share sales.

The Special share held by the Government, which enables it to protect Britoil's independence, is immune from change even if the Government sold all its shares, although reductions in the shareholding below 35 per cent - and 20 per cent - would require the Government to nominate only one director (instead of two as at present) and none, respectively.

V. Cable and Wireless (C&W)

The Government holds some 45 per cent of C&W's issued Ordinary capital, worth some £560 million at current market prices. There is no formal commitment impeding future share sales. The Chancellor of the Exchequer will report on the present position if required.