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2(A)(83) 6th Meeting

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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 27 OCTOBER 1983 at 5.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State
for the Environment

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State
for Trade and Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

Mr John Moore MP
Financial Secretary, Treasury

Mr Geoffrey Pattie MP
Minister of State for Defence
Procurement, Ministry of Defence

SECRETARIAT

Mr P L Gregson
Mr M S Buckley

SUBJECT

COMPETITION AND PRIVATISATION

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COMPETITION AND PRIVATISATION

The Sub-Committee considered a memorandum by the Chancellor of the Exchequer (C/A) (83) 15) on competition and privatisation.

THE CHANCELLOR OF THE EXCHEQUER said that privatisation, combined with increasing competition, was a major feature of the Government's economic strategy. Although good progress had been made in the previous Parliament, much remained to be done. Experience showed that privatisation measures were complex and time-consuming. They had to be carried through in the first 3 or 4 years of a Parliament, since the approach of a General Election made later sales difficult. It was therefore necessary to make rapid progress. His minute of 25 July to the Prime Minister had asked colleagues to provide timetables for each of their main privatisation candidates. The response was disappointing. In several cases, points of principle still needed to be resolved. The personal attention of the Ministers concerned was necessary if the programme was to be accelerated. Receipts from privatisation were of clear benefit to the public sector borrowing requirement. But the economy would benefit most if privatisation increased competition, improved resource allocation, and helped eliminate inefficiencies. Because of their size and importance, the gas and electricity supply industries were central to the privatisation programme. Selling them, or parts of them, could raise substantial sums of money; and much could be done to increase competition. He therefore hoped that the Secretary of State for Energy and the Secretary of State for Scotland would be able to bring forward proposals for those industries before the end of the year. He also invited his colleagues to note the need to accelerate the pace of work on the privatisation programme, giving particular weight to the need to increase competition; and to agree that the Financial Secretary, Treasury should hold bilateral discussions, to be completed by Christmas, with the main sponsoring Ministers and draw up a coordinated action timetable for discussion early in the New Year.

In discussion, the following main points were made.

- a. The gas and electricity supply industries raised particular problems. Although some of their activities, such as electricity generation, would allow competition, others were likely to remain as monopolies. It might well be preferable that they should be monopolies in the private sector.

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But it would be essential to set up an adequate regulatory regime. It would also be desirable to involve the employees in ownership; this would, among other things, reduce the risk of trade union opposition. Difficult choices would have to be made. It was therefore essential that Ministers collectively should be given a number of options from which to choose.

b. Several of the candidates for privatisation in the trade and industry field were loss-makers. This did not rule out selling them; but it would make it more difficult. There was, for example, little hope of early privatisation of either Rolls Royce or the bulk manufacture of liquid steel. A priority was to dispose of suitable parts of British Leyland. There were also fair prospects of selling warship building capacity.

c. Several candidates in the field of transport were ready for disposal or very nearly so: Sealink; the Civil Aviation Authority's airports in Scotland; and remaining shares in Associated British Ports. Although it would be technically possible to dispose of British Airways, there were financial problems. The airline's present burden of debt would not permit a sale. One possibility would be a capital restructuring; but this could well require legislation. Alternatively, it would be possible to wait until profits had increased the net worth of the business to a point at which it was saleable. This was unlikely to happen before 1985; but it might anyway be necessary to wait until then in order to allow the market to digest the effects of the sale of shares in British Telecom. The British Airports Authority and the National Bus Company raised difficult questions of competition and regulation, which the Secretary of State for Transport was studying urgently.

d. There was little scope for privatisation in the environment field. In particular, the regional water authorities were natural monopolies and unsuitable for privatisation. The main weight should be put on encouraging or requiring local authorities to contract out their functions or to put them up for competitive tender.

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e. A general problem was the inadequacy of the accounting systems of many candidates for privatisation. This often made it difficult to consider different options for restructuring and disposal in an informed way. Every effort should be made to improve defective accounting systems.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee approved the proposals in E(A)(83) 13. In particular, they wished the Ministers responsible to bring forward as soon as possible options for increasing competition in, and privatising appropriate parts of, the gas and electricity supply industries. The discussion had brought out the importance of drawing up a carefully coordinated programme of legislation and disposals, taking account of both Parliamentary and likely market constraints; the Financial Secretary, Treasury should give particular attention to those aspects in preparing his proposals for a programme of action. It was essential, for the reasons indicated by the Chancellor of the Exchequer, to press ahead with privatisation. The Sub-Committee would meet again in late January 1984 to consider proposals. There would be no objection, however, if Ministers wished to bring forward proposals on individual industries before then, or to discuss them informally with her and other colleagues directly concerned. The circulation of any papers should take account of any political or market sensitivities.

The Sub-Committee -

1. Approved the proposals in E(A)(83) 13.
2. Invited the Secretary of State for Energy and the Secretary of State for Scotland, in consultation with the Chancellor of the Exchequer, to put forward as soon as possible options for increasing competition in, and privatising the gas and electricity supply industries.

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3. Invited the Financial Secretary, Treasury to hold bilateral discussions with the Ministers responsible for the main candidates for privatisation on the basis described in E(A)(83) 15.

4. Invited the Chancellor of the Exchequer, in the light of those discussions, to put forward further proposals for consideration by the Sub-Committee in late January 1984.

Cabinet Office
28 October 1983

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