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Prime Minister's Economic

*I suggest we see how
Sir Keith and the House
react to this. If they
are uncooperative, you may*

BF
PL
2/13

Treasury Chambers, Parliament Street, SW1P 3AG *have to hold*

01-233 3000

1 a snack meeting.

and

PL

2/13

PRIME MINISTER

DISPOSALS PROGRAMME IN 1980-81

You asked for a report on progress towards achieving the £½ bn target in the forthcoming White Paper for public sector asset disposal in 1980-81 and on what steps remain to be taken to achieve it.

2. The present position for 1980-81 is set out in the attached table. The items in part (i) are reasonably firm, although there is still some uncertainty about the precise figures in individual cases. The items in part (ii) represent the remaining possibilities we have identified as capable of yielding benefits in 1980-81. (They do not include therefore receipts from the sales of the National Freight Corporation or British Airways where, although we expect to obtain the enabling legislation during 1980-81, the current profit position will inhibit a sale before 1981-82 at the earliest).

3. The gap which remains to be filled next year is some £70-100 million (or £110-140 million if we seek additional disposals to make good the net increase in the PSBR of unwinding £40 million of the 1979-80 forward oil sales where

/there is



there is no contractual provision for roll-over). Experience this year suggests we should plan for figures at the top of the range to allow for slippage.

4. Among the items in part (ii), I am concerned about the lack of progress over Cable and Wireless. We had thought of a two-stage flotation of shares, initially in Hong Kong where their main operation is based, and later on our own Stock Exchange. A Hong Kong issue (unlike the other) would not require legislation and thus affords the only prospect of a C&W contribution in 1980-81. But the present C&W Court is opposed to that route, on grounds of possible impact on their other concessions. Those fears are held by some to be exaggerated; it is not at all clear that setting up, and selling shares in, a Hong Kong subsidiary would lead to demands for local participation in, or outright nationalisation of, profitable operations elsewhere. The essential first step in breaking the deadlock is to appoint a suitable new Chairman, in place of Lord Glenamara (formally Ted Short, MP), now overdue for replacement. The search has been on for many months, and time is fast running out on our hopes for 1980-81.

5. We must look therefore for a significant contribution in the energy field if we are to have any chance of meeting the target. There are a number of possibilities. One, not mentioned in the table but currently under discussion, is the possibility of auctioning Seventh Round North Sea oil licences (on which I am in touch separately with David Howell). A second is the sale of some of the National Coal

There is a letter in file 2 on this
PL

/Board's



Board's subsidiaries. The table shows receipts of some £10-20 million from the sale of a particular subsidiary, ie Sankey, but I see from the Board's Annual Report that they have a large number of subsidiaries in fields as wide-ranging as solid fuel distribution, engineering manufacturing, brick manufacturing and builders merchanting. Their links with the Board's main business are unclear and this could well be an area in which more substantial receipts could be secured, if the Board were pressed hard.

6. The final candidate, and the one most likely to secure a significant and certain contribution in 1980-81, is sale of the British Gas Corporation's 50 per cent interest in the Wyth Farm oil field. Given the size of the remaining gap, I think we have to go for this. The case for sale is strong. BP who own the other 50 per cent are likely to be interested in buying out the Corporation. The operation has no direct relevance to BGC's main business of gas production and distribution: the field produces no gas. I recognise that there are difficulties and that resistance from BGC itself may be expected. But none of the problems appear decisive. For example, uncertainty about the value of the assets (because the size of the recently discovered oil reservoir below the existing reservoir has not been determined) could be overcome by a sale contract which provided for the payment of a substantial sum on account, to reflect proven reserves, with balancing payments to be made later when the full facts are known. If David does

/not think

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not think his present powers are adequate, the Petroleum and Submarine Pipelines (Amendment) Bill would offer an early chance to remedy this.

7. As elsewhere on public expenditure, I attach importance to meeting this target. It is also important in the context of our more general privatisation policy. But if we are not to fall short of the target, early decisions are needed so that action can be set in hand. I would therefore want to press Keith to bring the search for a new C&W Chairman to a speedy conclusion, at the same time asking David to set in hand the sale of the Wytch Farm oil field, and buttressing this by the sale of some National Coal Board subsidiaries.

8. I am copying this letter to Keith Joseph, David Howell, and Sir Robert Armstrong.

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(G.H.)

12 March 1980.

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1980/81 DISPOSALS

£m at 1979/80 O.T.P.

(i) FAIRLY FIRM

New Towns (E & W)	140 - 170*
(Scotland)	2
British Aerospace (about 50%)	100
NEB Shareholdings - at least	70
Motorway Service Areas	40 - 50
British Sugar Corporation	20
Market Towers	15
PSA	4
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	391 - 431
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(ii) OTHER POSSIBILITIES

Cable and Wireless	65
Radiochemical Centre	20
NCB Subsidiaries (Sankey)	10 - 20
BCG (interest in Wytech Farm oilfield)	100

*£170m assumes a £30m carry over from the 1979/80 disposals target



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