



SECRETARY OF STATE FOR ENERGY
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The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

4 September 1979

Dear Secretary

DISPOSAL OF PUBLIC SECTOR ASSETS 6

Since our E(DL) discussion on 24 July, I have been reflecting on our general approach to nationalised industry disposals. It is clearly of great importance that the policy should develop in the most effective manner possible.

We are all agreed that it is a major aim of Government strategy to widen the ownership of state-owned industries and assets and thus entrench popular pressures against collectivism. We fought and argued for this during our campaign, and the theme was made a centrepiece of party speeches. But to achieve this, at least in the industries with which I am concerned, will require very careful timing and handling.

I recognise that piecemeal disposals under time pressure in 1979/80 are necessary for short-term PSBR and tax strategy reasons, but we should not under-rate the dangers inherent in the poor business practice of selling assets to finance current requirements. The major risks are that sales will not result in stable arrangements because of non-co-operation between public and private participants; and that of selling under pressure in circumstances, or at a time, in which the assets do not realise their full potential value. This could lead to damaging accusations of bad business practice, benefitting the investor at the expense of the taxpayer. It could discredit and undermine the Government's whole approach to the unwinding of the public sector.

In view of these risks - and, on the other hand, the great possibilities of a deliberate and considered approach - I think it important that we do not extend into 1980/81 and beyond the somewhat headlong and timetabled approach to sales which was forced on us this year.

I believe that the proper decisions on method and timing can only be taken after full consultation with the Chairman and Board of the industry concerned. Annual budgetary constraints should not be such as to exercise absolute control over the pace and shape of individual disposals. This feeling was mooted, you may recall, towards the close of our somewhat rushed meeting in E(DL) on 24 July. I am convinced that this approach will produce long-term results which will be better in every respect.

As an illustration, I am concerned, in my own field, not to jeopardise the prospects of progress on this front in the Gas Industry. I hope shortly to discuss with the Chairman and Board a wide range of possible options for the introduction of private capital. Although I will naturally press ahead with this as quickly as possible, I very much hope that I will be able to hold these discussions and to take the resultant decisions without the over-riding and short-term pressures to which we were subject



on TRC and BNO. In the meantime, of course, BGC will already be making a very large contribution to the Exchequer in 1980/81. I am sure you will share my desire, in this of all cases, not to jeopardise long-term policy objectives for short-term revenue gains.

I am copying this to our E Committee colleagues and to Sir John Hunt.

*Yours
David*

D A R Howell



4 SEP 1979

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D A R Howell

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