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From the
Minister of State

Kenneth Baker's Office

Nick Sanders Esq
Private Secretary to
The Prime Minister
10 Downing Street
London SW1

Dear Nick

CABLE AND WIRELESS

Thank you for your letter of 23 February.

The question of what proportion of the Government's shareholding in Cable and Wireless should be sold was considered very carefully before E(DL) reached its decision. After consulting the FCO, the company and the Governor of Hong Kong, where C & W have by far their most important concession, and after taking preliminary soundings of other overseas governments, Mr Baker reached the view that HMG should, at least initially, retain a clear majority of shares in order to safeguard the company's position in the countries where it provides services under a concession. These concessions account for two-thirds of the company's income. We found that HMG's ownership of Cable and Wireless is a reassurance for many of these countries, principally in the Commonwealth that their vital international communications are in safe hands. It is open for these governments to make other arrangements at will particularly as several of them in the Caribbean, have close political ties. Our fear was that if one or two countries decided to use the pretext of disposal by HMG to nationalise the local C & W operation others would follow suit. A widespread domino effect of this sort could have upset the basis of the company's business and spoiled the prospects for any sale of shares. The 50/50 formula was in this sense judged to be consistent with our central objective of maximising the proceeds from disposal. We have now formally consulted all overseas governments about disposal on this basis and have so far received the endorsement of nearly all of them. If it were decided to sell more shares, either now or at a later date, we would need to consult these governments again.

What was the main reason of the understanding with the Commonwealth? at the Hong Kong - 1 state bank 45% to 50 Prime Minister

You suggested that we sell off, say, 67% of Cable and Wireless return than 50%. The difference would be worth about £50 m. The Treasury ^(Fig 8) are keen to get this extra money, but ^(Fig 8) 27 February 1981 DoI and FCO ^(Fig 8) argue that anything less than a 50% stake would jeopardise Cadw's overseas operations; they say that overseas governments where Cadw operate have been consulted and have urged that HMG should retain a majority stake.

(I think this will need to be resolved in E next week. Agree?)

DL
27/2



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The Prime Minister is of course right in assuming that about 30% of the shares would generally be taken as a controlling interest. We intend that HMG should relinquish effective control of C & W after flotation so that the company will fall outside the scope of the PSBR and it has been generally agreed with the Treasury that where the Government specifically eschews control, a private sector classification may be obtained even with a Government holding of just over 50%. We are keeping open the option of a further sale of shares at some time in the future.

I hope that this explanation makes clear why it was decided to sell no more than around half of the shares in the first instance and that the Prime Minister will be able to agree the main points of the draft statement. Mr Baker has in any event had to reconsider the timing of the statement and decided to postpone it until he has had an opportunity to consider with the Chairman of the company some important developments in crucial discussions which the Chairman is having in Hong Kong this week. Instead of the 4 March, Mr Baker hopes to be in a position to make the statement a week later.

I am copying this letter to the recipients of yours.

Yours sincerely
Liz Riley

LIZ RILEY
Private Secretary