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1/les Tim,

CABLE & WIRELESS PRIVATISATION

I have seen the recent correspondence and as I have only today returned from Hong Kong I thought that I should write to let you know some of the commercial reasons which require HMG to retain just over 50% on the initial flotation.

1. About two-thirds of C & W's profits originate out of Hong Kong where we have a concession which expires in 1987 at which time the Hong Kong Government (HKG) would be entitled to buy the assets at written down book value (this could be less than six months' profits). We have now successfully negotiated a new long term concession in a joint company in which HKG will have a 20% interest and is still subject to the payment of a new royalty which is being negotiated. HKG was very resistant to the idea that we would either relinquish control of C & W or even float off a local subsidiary. It was only when I told the Governor that the position would be "analagous to BP", and that is that we would relinquish commercial control but retain strategic control, that the negotiations prospered. Without this new concession there could be no flotation of C & W and even now we are very dependent upon the goodwill of HKG in order to help us with a number of very real local difficulties. Indeed there was a time last week when I thought that we might even have to cancel the flotation but with considerable help from HKG these difficulties have been largely overcome.
2. In Bahrain our concession expires next year and we have only now been able to agree in principle the renewal which will involve giving a 60% share to local interests. Once again, the Ruler expressed concern at our privatisation proposals and it was only our assurance that we would maintain strategic control that won the day.

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C & W acts on a government to government basis in over 30 areas and since 1947 has been regarded as an arm of HMG. I believe that after a year or two of experience as an independent commercial concern, we will be able to place further shares on the market and substantially reduce our holding. To do so at this time would undermine the commercial basis of the flotation since there would then be pressure from local commercial interests to take either an increased share or control of the existing C & W local operation. This I know for a fact as I have just fought a hard battle with the HK Telephone Company who had plans to buy up a substantial stake in C & W in order to obtain a measure of control to improve their own position. David Newbigging of Jardines and Sir Sydney Gordon of China Light & Power are amongst the HK Telephone Company's directors and it was only when I told them that we were retaining strategic control that they modified their ambitions. We will still have to face this problem if and when we dispose of further shares.

Yours ever

Travis