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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Keith Joseph BT MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
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13 July 1981

NATIONAL BUS COMPANY: PRIVATISATION OF NATIONAL EXPRESS

I have seen a copy of Norman Fowler's letter to you of 8 July in which he seeks agreement to discussing with the Chairman of the National Bus Company the privatisation of the National Express coach business.

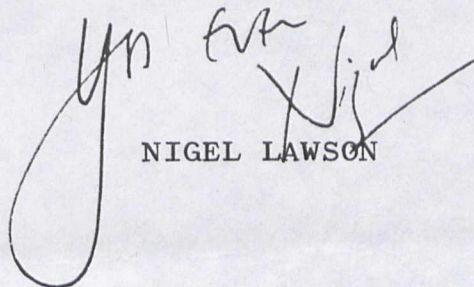
I warmly welcome Norman's suggestion and would be quite content for him to raise this issue with Lord Shepherd. However, at this stage I think it should be without commitment as to the extent of sale. We should defer, until after Norman's soundings, a decision on whether or not the NBC should be pressed to dispose of the National Express business outright, rather than retaining a substantial minority interest and, in consequence, reducing the proceeds of sale. Outright sale would be preferable in that proceeds would be higher and the business would be completely under private sector management. On the other hand, Norman points to the importance of securing the NBC Board's support for the proposal both because of the complexity and consequent delay in introducing of the legislation necessary to force sale and because of the close sharing arrangements between the stage carriage and express coach sides of the business.

If it proves essential to offer the NBC Board the opportunity to retain a stake in the new company I would like Norman to negotiate on the basis of this stake being as low as possible and certainly lower than the 30% mentioned in his letter. I am also concerned about his reference to the need for close contractual links between the NBC and the new company to permit the joint use of assets. Clearly before discussions begin it is difficult to be sure that these will not be necessary, but for the proposed new company to be in the private sector it has to be manifestly independent of control by the NBC. That will not easily be achieved, given that they are now sharing vehicles, staff and premises. If these are to be subject in the future to contractual undertakings, they will have to be fair to the shareholders of both. Hence the need for maximum separation between the two sets of shareholders, if the one company is

not in effect to be controlling the other.

In due course it would be helpful to have an indication of the value of the assets of the new company. We would also need to secure the benefit of the proceeds for the PSBR. Perhaps Norman could report to E(DL) on these points in the light of his discussions with Lord Shepherd.

I am sending copies of this letter to the recipients of Norman's.

A handwritten signature in black ink, appearing to be 'Nigel Lawson', written over the printed name. The signature is stylized and includes a large loop at the end.

NIGEL LAWSON