

COVERING CONFIDENTIAL



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PS/ *Secretary of State for Industry*

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

17 July 1979

Dear Tim,

My letter to you of 13 July attached the earlier background papers on future policy towards the NEB. You wrote on 16 July indicating the Prime Minister's endorsement of the conclusions of E(EA).

... As promised in my letter of 13 July, I am now attaching a draft of my Secretary of State's proposed statement on the future of the NEB. I have tentatively agreed with the Chancellor of the Duchy of Lancaster's office that this statement should be made on Thursday 19 July. I should be grateful for any comments as soon as possible and in any event, not later than 10.00 am on Thursday 19 July.

I am copying this letter to the Private Secretaries to all members of Cabinet and to Martin Vile.

Yours sincerely,

Andrew Duguid

ANDREW DUGUID
Private Secretary

DRAFT ORAL STATEMENT

1 Mr Speaker, I am now able to make a statement about the Government's policy towards the National Enterprise Board.

2 Over the last few weeks I have carefully reviewed the full range of the NEB's activities. My colleagues and I have had several discussions with the Chairman and the NEB Board. I have, too, met the Board's regional directors when I visited Liverpool and Newcastle. I pay tribute - as I have before - to the good intentions and the energy of all concerned with the NEB.

3 But the House knows that we opposed the Industry Acts of 1975 and 1979, and in our Manifesto we promised to reduce the NEB's powers. We favour the encouragement of private initiative and enterprise, not the promotion of public ownership.

4 But we are realists: we do not expect the economic climate to be transformed overnight. Private enterprise has been constrained too long for that. We know it will take time to achieve full vitality. In the meantime the NEB will have a continuing role for those companies which have been in difficulties and for which it now has a responsibility, so long as the business concerned has a prospect of viability and no solution based on the private sector is available. If other cases arise where the private sector is unable to provide a solution to a company's difficulties, receivership will normally be the right course. In a wholly exceptional case circumstances could arise in which the NEB might - but only on the Government's initiative - provide temporary and tapering support, with the aim of restoring the company to commercial health as quickly as possible.

5 Given that the NEB has this role I have looked at whether

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there is any other activity it could undertake consistent with our policies. I see no public benefit in enabling the NEB to act as a general merchant bank, and its powers to promote businesses, or buy shares in them will be restricted within very clearly defined limits. Our policy (as the Manifesto envisaged) is that the greater part of the NEB portfolio should be sold as circumstances permit having regard to the interests of the taxpayer and the companies. I look to the NEB to make disposals to the value of £100m in the current financial year, as foreshadowed in my Rt Hon Friend's budget statement. However, I do not think it is in the public interest, or in the interest of the companies concerned to identify them now or specify the timing of their disposal by the NEB. I shall also be requiring the NEB to make a substantial reduction in its expenditure in the current year and rather more in the following year.

6 I exclude, however, the investments which the NEB has made in a dozen or so newly established high technology companies, chiefly concerned with computer software, micro-electronics and their applications, and which I believe justify special attention - although I am reviewing INMOS separately. [These companies have growth prospects and are of potential significance. But they entail high risks which private investors have been unable to accept in recent years because of discouraging conditions, and these companies will need to evolve before it will be practicable for the NEB to sell them.]

7 In the light of this it seems sensible to use the NEB as one means of familiarising the market with ~~these~~ new technologies. For my part I see this role as being necessary only until the market is clearly strengthened and I would not wish to put a term to the role now. The budget for it will be limited - but clearly defined.

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The objective will be to secure in each case the maximum amount of private investment, with a view to full private ownership in each case as soon as practicable. The NEB will be able to recycle some of their receipts from disposals of these companies to new high technology ventures, but only in partnership with private capital. A market that has met the huge risks of North Sea exploration should find no insuperable difficulty here.

8 The Government, too, as the House knows from our recent debate, is much concerned with the problems of the areas of high unemployment. An element of that regional policy is that the NEB should continue to exercise an industrial investment role in the North and North-West and with small firms, seeking always to maximise private investment and with the objective of transfer of full ownership to the private sector as soon as possible. The NEB's regional role will be very similar to the industrial investment activities of the Scottish and Welsh Development Agencies in Scotland and Wales respectively.

9 We will introduce a Bill early in the Autumn to give effect to these policies. We will sharply reduce the financial limits laid down by the 1979 Industry Act and amend the powers of the NEB set out in the 1975 Act, in accordance with the policies I have just announced. New Guidelines will follow which will set clear objectives for the NEB to achieve. Within that framework the NEB will have my full support.

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