



From RA

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

6 August 1980

The Rt. Hon. Norman Fowler, MP.,
Minister of Transport

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Dear Norman

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NATIONAL FREIGHT CORPORATION: DENATIONALISATION

You wrote to me yesterday evening reiterating your strong preference for early incorporation in the case of the National Freight Corporation, emphasising the strong support for this course expressed at E(DL) yesterday.

As I made clear in my letter to Adam Butler of 8 July, I believe that we must think carefully about the risks, in particular the potential loss of control to the detriment of public expenditure and the PSBR, before embarking on incorporation in advance of flotation. We must also avoid making an empty gesture which would expose us to criticism and constant pressure. Incorporation by itself will not hasten the process of privatisation: that must depend on market conditions. On the other hand, colleagues at E(DL) clearly judge the political risk worth taking in the case of NFC and I would not therefore want to press my reservations of principle further.

However, it will be essential if we are to control the contribution of the NFC as a public sector company to public expenditure and PSBR to maintain controls over investment and borrowing identical in substance with those in force for statutory corporations and to ensure that they operate effectively.

I must therefore make it a condition of early incorporation that such controls should be in place before incorporation takes place. We will need to consider whether this might best be done by special provisions in the Articles of Association (which would lapse on flotation) or by a Memorandum of Understanding (which could be legally binding). The new company should also have a published external financing limit and be treated for monitoring etc. purposes as part of the nationalised industry sector. I would have preferred to have established satisfactory arrangements of this sort before you made a statement committing us to early

/incorporation.



incorporation. However, there is an argument in favour of an early announcement to let Parliament know your intention of foregoing benefits to the Exchequer. I would therefore be content for you to make the statement as you propose provided that the position of financial control is made clear in the statement itself. I suggest this could be done by amending the third paragraph of the draft which you send me to read:

"While the Company remains in the public sector I shall of course continue to exercise financial controls over investment and borrowing similar to those which now apply to the Corporation. I shall be considering how this might best be done. During the period of 100 per cent Government ownership the Company will continue to have a published external financing limit within which it must operate. I have no doubt ..."

I am also concerned by the absence of any provision for a dividend payment if the sale of NFC is delayed beyond the early part of 1981. It would hardly seem to provide a good prospectus for sale if the Company were to pay no dividends for more than a single year. I would therefore like to see a provision for dividend payment reflected in your statement. Again this could be done by a small addition to paragraph 6 of the draft statement on the following lines:

"... the immediate effect will be to relieve the Board from the need to meet fixed interest payments of approximately £9 million a year. Instead, the Company will have to consider and settle with the Government an appropriate level of dividend to be paid on its shares. I will expect the Board, while the Company remains wholly owned by the Government, to use any improvement in their financial position as a result of this arrangement to reduce its bank and other borrowings from the private sector."

I am copying this letter to the Prime Minister, Keith Joseph and the members of E(DL) and to Sir Robert Armstrong.

GEOFFREY HOWE

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