

*Prime Minister**A-**The Chancellor will
write to discuss.*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

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PRIME MINISTER

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NATIONALISED INDUSTRIES: PRIVATISATION

see A. Duquand.

My minute to you of 16 January identified extension of privatisation as the most helpful line of progress in dealing with the long-term problems of the nationalised industries. I also pointed out some of the difficulties, in particular the resistance to be expected from the industries themselves to proposals for radical structural change and the need for a strong and energetic commitment by the Government as a whole and individual sponsor Ministers. You asked me to consider how this work should be taken forward.

Present state of play

2. Considerable progress has been made through E(DL) in identifying candidates for privatisation, although not without a great deal of hard work. Both this session and last we have brought forward legislation and, in addition to BAe, we are preparing to float Cable and Wireless, British Transport Docks Board, National Freight Company and British Airways and to allow the private sector to take control of a number of British Rail subsidiaries, the Radiochemical Centre and some of British Telecommunications peripheral activities. The major need in this area is to press forward and take the final step of transfer to the private sector. The success of the BAe operation shows what can be done.

3. But looking further ahead, the position is less satisfactory. Apart from the decision yet to be taken on BNOC, there are no further immediate candidates in the shape of complete

/industries which



industries which can be floated off. There is further scope, however, for privatising parts of large industries where separate profit streams can be identified. For example, we are pressing for rapid progress on sale of BGC's oil assets and of its retail showrooms. Both the engineering workshop of British Rail and the Coal Board's open cast executive are being examined, as is the application of a similar approach to British Telecommunications. Something similar may be possible for British Shipbuilders once it is back on course and in the case of BSC, there are plans at various stages of development for privatising by means of joint ventures with private sector companies. These are being pushed ahead as far as possible. We are also examining the scope for privatising some Government trading fund operations including the Royal Ordnance Factories where the unfunded pension arrangements may cause considerable difficulties.

4. Bringing these schemes to fruition will demand determination and a firm resolve by the sponsor Ministers concerned. The problems encountered in pressing David Howell to get the Coal Board to sell a small builders' merchant subsidiary (Sankey Sheldon) and in his dealings with Sir Denis Rooke over BGC's oil interests give a taste of the difficulties we will encounter. Moreover, even with the maximum progress we will still be left with a significant nationalised sector imposing a large and unpredictable burden on the PSBR and remaining significantly sheltered from competitive forces.

5. We must develop plans for dealing with the remaining industries. One line of approach is to look for new ways of involving private sector capital and management in activities closely linked with some of the present nationalised industries. The boundary between public and private sector activities does not need to be as firm as it

/is now.



is now. This approach may be particularly relevant for industries whose mainstream activities are currently unprofitable, such as Rail, where it is difficult to believe that complete privatisation is realistic within the foreseeable future. We must avoid diverting management from their priority tasks and ensure that partial involvement of private capital does not impede or delay more radical moves. But I believe we need to look actively and urgently for areas of enterprise - enclaves - where private capital could operate in collaboration with the nationalised corporations with scope for profit and a degree of risk. The gains in terms of efficiency and innovation could be substantial. I know that Norman Fowler has been developing ideas of this kind. It is a matter of searching out possibilities industry by industry. I think we must put a new effort into this.

6. My main suggestion, however, is a more radical development of our basic policy of privatisation. I know we both agree that all our experience over the last year or two must force us to question whether the great utilities with their entrenched monopolies can be allowed to continue as they are in the public sector. We should not take it for granted that any industry, however basic or monopolistic or however essential the service it provides, should necessarily remain in public ownership. There are alternatives on the pattern of the United States and other countries where utilities are in the private sector but subject of course to public regulation, as well as some UK examples.

7. A related question is whether the utilities need retain the monolithic structure they have at present, whether within or without the public sector. Different organisational structures, licensing measures to increase competition, could help to produce greater pressure on the industries for efficiency.

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8. These are not easy issues. Nor can we expect help in resolving them from the Chairmen, management or unions of the industries concerned. But I believe these are the issues we must now face.

9. How should we go about it? I am sure we have not yet reached the moment for a new initiative if by that is meant a major public announcement. That would only devalue the progress which has been made so far and arouse expectations about the future which we should not arouse until we are clearer how to advance. But if we are to break out of traditional preconceptions in Departments and among our colleagues as well as in the industries themselves, we need a new impetus internally. I very much hope you will feel able to give the proposals in this minute your full backing.

10. In the first place, we need to press forward to implement the proposals already identified in E(DL) and to develop others along similar lines. I hope that Keith Joseph, with the help of David Young, will be able to do this for Telecommunications and that others, including Norman Fowler, will press ahead also with ideas for involving private enterprise much more in activities in collaboration with nationalised industries. To help carry this forward I would like to suggest that I should resume the chair of E(DL). You will remember that I gave this up during the summer but experience since then suggests that it is easier for a Treasury Chairman to give the necessary thrust, harnessing the sources of information more easily available to a central Department to challenge the objections of sponsor Ministers.

*Who is
Chairman?*

11. On the more radical questions about the large utilities, I think we need a new start. But we need to develop our ideas first. Should we consider privatising one or more of the large utilities? What kind of regulatory system would

/be required?



be required? What kind of moves could we be making to break up the monoliths and introduce more competition, hopefully as stepping-stones towards privatisation? Should we do best to spread our energies over a wide front? Or to concentrate on the most promising candidate industry (gas?) and press ahead with that.

12. One way to take our thinking forward on questions like these would be to arrange a brains trust or seminar including the Ministers most directly concerned with nationalised industries, David Howell, Norman Fowler and Keith Joseph, in addition to myself, together with perhaps one or two junior Ministers (John Moore and Norman Tebbit, for example) two or three carefully chosen outsiders - and senior officials, of course. An alternative would be an ad hoc meeting of the same group of Ministers alone. Either way I should prepare a short paper proposing questions for discussion. The meeting should lead to a report which would be presented to you and considered by colleagues, perhaps in E Committee.

13. This approach should fit reasonably well with the new approach to our relations with the industries that remain nationalised, which I know you are considering and ought to make it possible to take some decisions about our next steps forward.

14. I hope these suggestions meet with your approval. We could perhaps discuss them at our next meeting.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

10 March 1981