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10 DOWNING STREET

From the Private Secretary

13 June 1985

Dear Rachel,

The Chancellor raised with the Prime Minister Mr H's proposal to bid for Company X. The meeting did not reach a conclusion but appeared to be moving towards the following.

The Chancellor should say that the Government regards the bid as giving rise to considerable difficulties but that Mr A is free, of course, to bid but cannot be given any undertaking in advance of what the Government's position would be.

If asked to amplify the reasons for this line, the Chancellor could say that the bid would be unwelcome because it might damage the climate for privatisation. This has been growing in success because it is increasingly identified with selling assets to the general public and to employees. The possible accusation of selling public assets to the Government's supporters, though untrue, would be a setback. The Government also needs to protect itself against the charge that it had arranged a deal in advance. This means avoiding an undertaking to accept the bid, or even to accept it if a majority of outside shareholders favour it.

The Prime Minister is content with this approach.

Yours sincerely,

Andrew

pa

PRIME MINISTER

You agreed to think further about the attitude of the Government to Mr. A's proposal to bid for company X. The conclusion to which the meeting seemed to be coming was that the Chancellor should say that the Government regards the bid as ^{giving rise to considerable difficulty for the reasons below} ~~politically unwelcome~~ but that Mr. A is ^{free} ~~is~~ free to bid but cannot be given any undertaking in advance of what the Government's position would be.

The thinking behind this is that a bid is unwelcome because it might damage the climate for the privatisation programme. The latter has been growing in success because it is increasingly identified with selling assets to the general public and to the employees. The ^{possible avenue} ~~atmosphere~~ of selling public assets to the Government's friends ^{although untrue} would be a setback. The Government also needs to protect itself against the charge that it stitched up a deal with its pals in advance. This means avoiding an undertaking to accept the bid or even to accept it if a majority of outside shareholders favour it.

Content with the line suggested above?

AT

Yes - in modified language.
not

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1. FERB 2. Prime Minister.



3 HT
24/6

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

24 June 1985

Dear Andrew,

Last Wednesday evening the Chancellor talked to Mr A and his colleagues about their proposal to bid for company X. Mr. P. Middleton was also present.

The Chancellor told Mr A that he had discussed the matter with the Prime Minister. They were both in no doubt that a bid would be politically embarrassing for the Government, but that Mr A had every right to make one, if he wished. The decision had to be his. It would not be right to give an indication, in advance of a bid, of how the Government might respond in respect of its own shareholdings. That would have to be considered in the light of circumstances at the time.

Mr A's colleague replied that neither he nor Mr A wanted to embarrass the Government. But he hoped the Government had taken full account of the financial advantages of a bid. He was confident that the whole issue would be underwritten in the U.S.

The Chancellor explained that the main problem was the possible damage to the privatisation programme. This has been increasingly successful because it is identified with selling shares to the general public and to

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employees.

The possible accusation of selling public assets to the Government's supporters, through the sale, would be a set back. The Government also needed to protect itself against the charge that it had arranged a deal in advance. The

Prime Minister took the same view.

The A and his colleagues said that they would reflect on this.

Yours ever

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