



Treasury Chambers, Parliament Street, SW1P 3AG

18 July 1979

The Rt Hon John Nott MP
 Secretary of State for Trade
 Department of Trade
 1 Victoria Street
 LONDON
 SW1

12,177

FINANCING OF BRITISH AIRWAYS

In your letter of 13 July to the Chancellor, you sought your colleagues' agreement to the text of a statement about the future financing of British Airways, to be made if possible on Wednesday 18 July. I am writing quickly to say that I do see some difficulties of principle with the text of the statement as now drafted, which I think we should probably try to resolve at E(DL) on Thursday 19 July. The points which concern me are summarised in paragraph 11 of my paper about Disposals in 1980-81 (E(DL)(79)9), which will be on the agenda at that meeting.

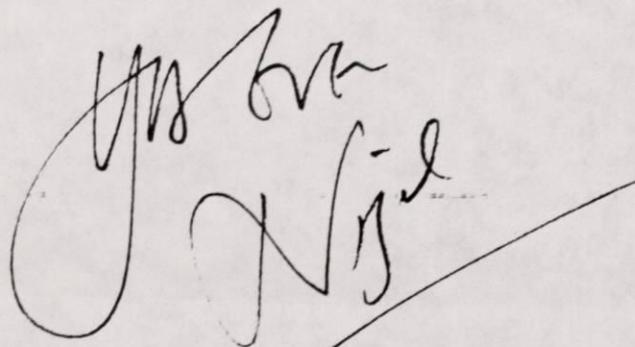
Essentially the point at issue concerns whether or not the Government's future relationship with British Airways will be such as to warrant the airline's being regarded as part of the private sector. In this and the other cases where we are contemplating the "BP solution", we have to make up our minds whether the Government is standing back from continued effective support and control or not. If we are willing to give up all control over British Airways (and incidentally to refrain from appointing a majority of the directors), and if we make the airline entirely dependent for its financing on the domestic and international capital markets (and advance no further funds from the NLF), then we shall have substituted the disciplines of the markets for the regime of financial targets and cash limits which characterises the non-privatised nationalised industries, and we can regard British Airways as part of the private sector. But if we continue to give British Airways the sort of support you are contemplating at the beginning of your

statement, the airline will remain in the public sector and there will be no question of any reduction in the PSBR.

In the light of this, I think it would be helpful if your statement, after mentioning the airline's re-equipment, were to begin by saying that it would be sensible for us to decide now whether it would be better for the airline to continue to be a nationalised industry in the same way as in recent years, or whether it would be able to operate more effectively if it were in the private sector and subject to the disciplines of the financial markets rather than to Government - determined financial targets. It could then go on to say, ^{that} since the airline does not enjoy a monopoly and is competing effectively in an international market, we think it more appropriate that it should become like a private sector company. In accordance with this we would be introducing legislation to turn British Airways from a statutory corporation into a limited company, which would in future raise the finance it needs on its own account from the financial markets. It follows from this that the receipts from the sale of a substantial proportion of the shares in the newly reconstituted enterprise would go to reduce the PSBR, and that the airline's future borrowing would fall outside the PSBR.

Since you are proposing a very substantial sale of the total business the Chancellor and I are entirely content for you to give assurances that your proposal does not involve a separate disposal of any part of British Airways, although we might not be able to take this view in other cases where this condition is not satisfied. But I think it very important that you should not say anything which could be construed as committing the Government to standing behind the airline in the same sort of way as they have hitherto stood behind nationalised industries, once your proposed new legislation has been enacted and implemented.

I am sending copies of this letter to the recipients of yours.

A large, stylized handwritten signature in black ink, appearing to read 'Nigel Lawson', is written over a horizontal line.

NIGEL LAWSON

18 JUL 1979

