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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

PRIVATISATION OF BRITISH AIRWAYS

Memorandum by the Parliamentary Under-Secretary of State for Trade

When British Airways Limited, as a private sector company, succeeds British Airways, it is my intention to make a clean break and stand back from the management of the company, so that it operates as near as possible in the same way as British Caledonian or Laker Airways. Whatever the size of the Government shareholding, my proposals are as follows:-

a The Government should minimise the extent and exercise of its powers in relation to the company. For instance I would expect the Board of Directors to make proposals to the shareholders' meeting on appointments to fill vacancies on the Board, and that the Government would normally support or acquiesce in the election of their nominees.

b I do not propose that any power should be taken to appoint special Government Directors as in the case of BP, although no majority shareholder can be indifferent to the composition of the Board.

c Treasury guarantees already given for loans to the British Airways Board would subsist until the loans are repaid.

d The Government will not have power to guarantee borrowings by British Airways Limited nor obligations of the British Airways Board if they are not already subject to specific Treasury guarantee.

e British Airways Limited will borrow from the market without Treasury guarantee, depending entirely on their credit-worthiness, and their borrowing will of course not be subject to Government control.

f The Government will have no power to make loans to British Airways Limited from the National Loans Fund.

g The Government will have the ordinary rights of a shareholder to sell shares and take up rights issues, of shares or stock of any kind. It may also have power to buy shares, but not so as to increase the proportion of shares held by the Government above the level immediately after privatisation.

2 In these circumstances it seems clear to me that British Airways Limited should be outside the PSBR. I do not think it would be possible or defensible to give an undertaking that the Government will under no circumstances exercise its voting rights as a shareholder, and will hand over the appointment of Directors to the exclusive decision of the private sector shareholders. We must be able to take action to protect our investment if needs be.

3 If on the other hand it is decided that British Airways Limited, either in the initial period before the shares are sold, or permanently, is to remain within the PSBR, this is likely to lead to the Government trying to impose limits on its borrowing requirement. Potential shareholders will then find it difficult to believe that the company will be free from Government interference, and this may prejudice the sale of shares.

4 Though I realise that for some industries there may be a strong case for departing from the privatisation concept, as outlined in paragraph 1 above, I consider that such departures from the concept should be individually justified, and that we should not depart from full privatisation when there is no need to do so merely in order to keep in line.

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N.T.

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