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STATEMENT

FINANCING OF BRITISH AIRWAYS

British Airways has embarked on a major programme of fleet replacement and expansion and I believe that it has excellent growth prospects. As our principal national carrier, it is operating in an increasingly competitive market and, while the world energy situation creates considerable uncertainties, I am nonetheless confident that the airline will face these challenges successfully.

Clearly there must be some flexibility about the rate of expansion in the face of these uncertainties. Nevertheless, the present appraisal is that British Airways will require a substantial increase in capital investment from both internal and external sources over the next few years in order to meet its objectives. For this reason I have been looking at its capital structure and financial requirements, and I should like to let the House have my views and proposals ~~on~~ the financing of this programme.

First, the Government are concerned to give British Airways the most effective form of organisation for carrying out its programme in response to the changing demands of the market rather than on the basis of Exchequer targets.

~~Second, it should have fullest possible access to capital markets both at home and overseas for its future investment needs.~~

~~Second,~~

Third, I propose therefore that the framework of the Companies Acts should be used to provide British Airways with a new capital structure and that a substantial minority shareholding in the enterprise should be offered for sale to the public. ~~[The effects of this would be that British Airways would cease to be a statutory corporation, the receipts from the share issue would bring immediate relief to the public sector borrowing requirement, and the airline's subsequent borrowing, amounting to roughly \$1 billion over the next 5 years, would fall wholly outside the PSBR.]~~

Third the Govt will give up control, for example, of the BA investment programme and it will in future satisfy its financial requirements from capital markets both at home and overseas.

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PA
PRIME MINISTER

Mr Nott and Mr Lawson
have agreed the amendments
I have pencilled in below.

Are you content too?

MS
19/7

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new
para



Fourth, my proposal does not involve a separate disposal of any part of British Airways.

Fifth, special arrangements will be made to enable employees of British Airways to take up shares in the enterprise should they wish to participate in its future and share in its growth.

Sixth, I envisage the fullest possible process of consultation with the airline's management and employees.

Seventh, I will put forward proposals later in the year for the legislation which will be required. The timing of any issue of shares will depend on market and other circumstances.

Eighth, I will also set out the Government's thinking on the licensing provisions administered by the Civil Aviation Authority. I can say now, however, that there will be no arbitrary reallocation of routes.



PA

*From the Secretary of State*CONFIDENTIAL

Tim Lankester Esq
10 Downing Street
London, SW1

19 July 1979

Dear Tim,

FINANCING OF BRITISH AIRWAYS

Following the approval given at tonight's meeting of E(DL), I enclose a copy of the oral statement on the financing of British Airways which my Secretary of State will make tomorrow, 20 July. Arrangements have been made for a press conference to be held at 11.30 in the Large Ministerial Conference Room in the House of Commons.

I am sending copies of this letter and attachment to Private Secretaries to members of E Committee, of the Chancellor of the Duchy of Lancaster, the Paymaster-General, the Chief Whip and Sir John Hunt.

*Yours Sincerely,**Tom Harris*

(T G Harris)
Private Secretary

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