

cc Mr Wright (Lg) ↙



From the Secretary of State

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17/9

PRIME MINISTER

SPONSORSHIP OF NATIONALISED INDUSTRIES

You minuted me on 4 August following up our discussion earlier in the day of the CPRS report on the relationship between Government and the nationalised industries, and asked me and other colleagues concerned to let you know how we propose to improve the expertise and effectiveness of our staff involved in the sponsorship of nationalised industries.

The Department of Trade is responsible for two nationalised industries - the British Airports Authority (BAA) and British Airways (BA).

BRITISH AIRPORTS AUTHORITY

Our relationship with British Airports Authority is very good and creates few problems on the commercial side. This is largely the result of the restricted and clearly defined role of the Authority, which consists essentially of selling services to a limited number of airlines. It is profitable and efficiently managed. It was a pioneer among the nationalised industries in producing current cost accounts, and one of the first to adopt explicit objectives for improving its performance. Commercially it has shown considerable enterprise in maximising its revenues, particularly from commercial concessions.

The main problems which occur in BAA's relations with the Department are political in nature rather than commercial. They arise over matters like the development of additional airports capacity for London, and the lawsuit brought by 17 airlines over landing charges, in which the Department has been joined as a co-defendant.



From the Secretary of State

BRITISH AIRWAYS

With British Airways the situation is much more difficult. Their problems are not unlike those of Pan Am: fierce competition compounded by the effects of a deep economic recession, and the consequences of failing hitherto to carry through successfully a merger between two formerly separate airlines.

The pressure to find a cure in Pan Am's case is provided by the threat of bankruptcy. With British Airways we are endeavouring to apply an equivalent pressure through the strict application of external financing limits and our intention to privatise. The achievement of these objectives depends entirely on the presence of business talent within the airline itself. We have recently appointed a new chairman, Sir John King. He knows that his reputation is committed to a major improvement in BA finances. We have supported him by adding to the Board two men of his choice; and if - as I expect him to do - he asks for a new Finance Director, we shall have to be prepared to pay a salary adequate to get someone of the right calibre.

We are seeking to improve the dialogue between the airline and the Department on financial matters and more generally, so that we understand better the thinking that underlies their management decisions. I do not expect any difficulties with Sir John over this, but BA have been much less willing than BAA to take us into their confidence. However apart from finance the most important interchanges between BA and the Government take place, as with BAA, on the external factors affecting the airline's operations and in particular the Government's aviation policy to some aspects of which they are publicly hostile. I have in mind their opposition to our airports policy and to the liberalisation of licensing policy. These are essentially political matters in dealing with which greater business experience within the Department would not be of particular assistance.



From the Secretary of State

STAFF

The sponsoring division is much smaller than is to be found in the major sponsor Departments, and I think has much in common with the CPRS concept of a business group. We post to the division staff with experience of aviation and business, gained either outside or within government, including staff from the division concerned with conducting international negotiations over traffic rights. Thus the Under Secretary has had previous experience as a pilot and air traffic controller, and has spent a substantial part of his civil service career in work connected with various aspects of aviation. The Assistant Secretary dealing with British Airways has spent two thirds of his twenty years as a civil servant on work related to civil aviation.

As for training, staff have attended courses, specifically related to aviation, at the London Business School and City University, as well as internal courses run by BAA and BA themselves. More widely the Under Secretary has attended a general management course at the Manchester Business School; and the Principal dealing with British Airways has been given direct industrial experience through a six months secondment earlier this year as personal assistant to the Managing Director of Scott-Bader. The team includes a full-time accountant and part-time economists and lawyers.

We recognise the need to do more to increase the staff's knowledge and experience of the industry and of business practice generally. We are therefore at an advanced stage in discussions with British Airways for the secondment of a Principal to them for a long enough period to give him first hand experience of working as part of the airline management. The nature of our problems with our two industries persuades me that this approach is more cost-effective than to import one or more businessmen into the Department, particularly since we hope that before too long we shall be in a position to remove British Airways from the public sector. We shall continue our policy of trying to keep people for longer periods on



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this work, though the job of cutting the size of the civil service tends to increase, in the shorter term, the rate at which people need to be moved. In looking for relevant experience outside the aviation field we shall take full advantage of the "common citizenship" between staff in this Department and the Department of Industry.

WJB

W.J.B.

Department of Trade

15 September 1981