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Prime Minister

Relevant to E(NI) on Monday.
MCS 3/3

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PRIME MINISTER

At E(NI) on 2 November, sponsor Ministers were asked to circulate to the Sub-Committee draft objectives for their nationalised industries.

I attach drafts for my two industries, British Airways and British Airports Authority, which my officials have prepared in consultation with the Treasury and CPRS.

The objectives are in approximate order of importance, though to avoid over-theoretical debate, I would not want to say that too explicitly. While we have aimed to minimise potential conflict between them, if this were to occur, we should expect the Chairmen to achieve a reasonable compromise between them, attaching less weight to those lower down the list without sacrificing them completely.

It might for example be arguable whether for British Airways we should put privatisation ahead of profitability, and Sir John King may have views on that when I come to discuss the draft with him. I think I have in fact put them the right way round both because for the industry, with no social or other reason for subsidy, profitable operation must be a cardinal objective; and because a much clearer prospect of profitability will be essential before we can proceed with privatisation. The wording also leaves open the possibility of disposing of some of British Airways' assets separately, if we judged that to be desirable at any stage.

The objectives do not attempt to tell the industries what strategy they should adopt in order to meet the other goals. This is in my view both right and in accordance with the CPRS' original ideas under which these matters emerge from the corporate plant discussions. I am asking British Airways, in their corporate plan, to include an examination of alternative strategies.

While I think these draft objectives are broadly right, I shall be ready within reason to adapt them to take account of the views of the industries in order to reach a consensus about the goals to which they are committed to work. I am sure this is the right approach. (It is also a reflection of the realities of the statutory position. Except in certain cases where there is a specific statutory requirement, I have no power to impose objectives on my industries, and I expect that other sponsor Ministers will be in a similar position. As you know, I am currently preparing my defence against the legal action brought by a number of airlines who allege that I exceeded my statutory powers in establishing a financial target for the British Airports Authority).

Unless my colleagues have major points on these drafts I would hope we could clear them by correspondence, especially as I should like to discuss them with the Chairmen as soon as possible. Could I therefore ask that any comments should be sent to me by 10 March.

I am copying this minute to members of E(NI), Sir Robert Armstrong and Mr Ibbs.

WJB

W.J.B.

Department of Trade

3 March 1982