

For E(A)
Wed.

CONFIDENTIAL

PRIME MINISTER

29 March 1985

AIRPORTS - PRESTWICK, PRIVATISATION, WHITE PAPER

Nicholas Ridley wants E(A)'s endorsement for leaving a loss-making Prestwick Airport with BAA until after privatisation (1989); then its future can be decided on commercial grounds. George Younger supports this, as it avoids the political problems. The Treasury, claiming to champion airlines and consumers, would like to close Prestwick now.

Is Prestwick a problem or an opportunity? Prestwick's early closure would increase the sale value of BAA's Scottish airports, but the gain will be largely offset by the closure costs. Landing charges are less than 5% of the total cost of air travel. So any cost saving benefit to passengers would be tiny. There may be an economic case for closure, but the politics are difficult.

We would rather consider Prestwick through opportunistic business eyes. Unlike the London airports system (85% of BAA's assets) which is a safe, mature business suitable for the shareholding public, the Scottish airports offer more scope for imaginative, and perhaps risky, development. Suppose they were sold to an entrepreneurial group of business interests headed by someone like Nigel Brookes. The North Sea service and supply industry, Silicon Glen, tourism, Scotland's financial services, and the up-market Scottish craft industries all provide exciting business opportunities. So

CONFIDENTIAL

too does golf, often interwoven with business. One only has to visit Gleneagles to see the yen and dollar earning potential of prestigious Scottish golf courses.

Seen in this context, Prestwick could look considerably more interesting than a loss-making conventional airport, at an awkward location. What about its free port? What about its capacity to handle long-haul intercontinental flights - unlike Glasgow and Edinburgh?

Conclusions

You could argue on Agenda Item 3.

1. Now that we have decided to privatise BAA's Scottish airports, we should not pre-empt the judgement of enterprising business interests for the future of Prestwick.
2. As there is an outside chance that an entrepreneur could do something with the Scottish airports, there is all the more reason to sell them separately from the London group.

Also, the White Paper should concentrate on selling the case for London (particularly Stansted) expansion and privatisation, and should not be cluttered with too many side issues which merely serve to increase the number of lobbies against the policy.