



PRIME MINISTER

PRIVATISATION OF BRITISH AIRPORTS AUTHORITY

We have been assuming in our discussions with BAA that privatisation would take place in January 1987, although the Treasury have indicated that BAA might have to wait until April or June 1987. Realising that the postponement of BA's privatisation must put their January 1987 slot at risk, BAA have recently pressed for an earlier date for privatisation. Since the sale of British Gas leaves no room for any other public sector sales in the autumn, the only possible earlier date is late July 1986. I have carried out with BAA a preliminary analysis of the feasibility of a July 1986 flotation for BAA, and concluded that it could just be feasible.

The timetable would be based on a 23 July impact day so that dealings in BAA shares would begin on 1 August before the main holiday period. This would mean that the Airports Bill would have to receive Royal Assent by 27 June to allow 3½ weeks to market the issue.

Although we have not yet begun to consider in detail many of the difficult related issues - the restructuring of the BAA, the capital structure, the method of sale etc - our professional advisers (County Bank and Allen & Overy) have advised that an impact day of 23 July is feasible provided that unexpected problems do not emerge, and that the parties to the negotiations (ie BAA, the Department and the Treasury) act reasonably and officials do not have to refer back all decisions. They question whether it is reasonable to assume that these provisos will be met, and think that we would be ill advised to try for a July date.

I believe that a July sale would be possible only if:

- i. we have a very early decision to target on July;
- ii. we draft in more resources to tackle immediately the outstanding issues;
- iii. the Bill goes quickly through the Lords.

Second reading of the Airports Bill in the Lords is now likely on or around 21 April. Although I understand Royal Assent is thought to be achievable by 27 June, there must be a risk that this will prove not to be so. (The Bill now has 74 clauses and 5 schedules, and there are in any case bound to be Lords' amendments that have to come back to the Commons.) Even if the Opposition leaders in the Lords are now saying that they do not want to spend much time on the Airports Bill, we might expect them to take a different view once it became known that we were aiming for a July sale.

There is one other Parliamentary risk. A number of statutory instruments subject to negative resolution would need to be made under the Airports Act before impact day in order to establish the regulatory regime for the privatised BAA. They could be made immediately after Royal Assent and come into effect before impact day, but they could be prayed against for up to 40 sitting days after the day of laying, ie into November. This would probably not cause an insuperable problem for the prospectus but it would cause a major row in Parliament if I am seen to be taking action to privatise the BAA against the background of orders on which Parliament had yet to make a judgement. The embarrassment and uncertainty could be such as to force me to abort the flotation.

A July flotation would have a number of advantages: we could take advantage of the present bull market; investors would not be worrying about an impending election; and the competition for privatisation slots in early 1987 would be eased. But there would be some substantial disadvantages. We would have to accept a shortened marketing period, and if proceeds were lower than expected we would undoubtedly be criticised for rushing the sale. We would have to tackle a number of difficult issues over a short period, simultaneously with continuing Parliamentary consideration of the Bill, which will need increased resources and add to the possibility of mistakes being made. And there must be a distinct risk that because of disputes with the BAA on the outstanding issues, or because of delays in the Lords, or because of other unexpected factors, we would have to abort a July sale.

There is also an awkwardness over the renegotiation of the Bermuda 2 agreement between the UK and the US that governs services by British and American airlines between and beyond the two countries. We have given the uncertainties of the current renegotiation of this agreement's capacity annex as our main reason for deferring the privatisation of British Airways; and we should no doubt be asked why the Bermuda 2 uncertainties, though serious enough to prevent a flotation of BA in summer 1986, are no obstacle to a BAA flotation, when the BAA depends for a significant proportion of its income (though less than in BA's case) on American services. Though we can argue that the uncertainties will affect the BAA less than BA, we shall not be able to dismiss such questions entirely without casting some doubt on our case for deferring BA's flotation.

Since a July date for BAA privatisation is an attractive option, and appears theoretically feasible, I thought that I should consult you and colleagues about it. However,

it is undoubtedly a high-risk option: there would be an increased chance of an aborted sale, and of criticism that we had sacrificed proceeds to haste; and there is the difficulty of explaining away the Bermuda 2 uncertainties. I conclude reluctantly, therefore, that our professional advisers are probably correct in counselling against it, and that we should continue to set our sights on selling the BAA in early 1987. I should be glad to know if you and colleagues concur.

I am copying this minute to the members of E(A), the Lord President, the Chief Whip, Lord Denham and Sir Robert Armstrong.

Nicholas Ridley
(Private Secretary)

AP. NICHOLAS RIDLEY
3 April 1986

(Approved by the Secretary of State but signed
in his absence)