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Secretary of State for Trade and Industry

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9 April 1986

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
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**PRIVATISATION OF BRITISH AIRPORTS AUTHORITY**

You copied to me your minute of 3 April to the Prime Minister. I have a strong interest in the timing of BAA privatisation because Rolls-Royce is a candidate for the same slots in the 1987 programme. However, I am also concerned about the implications for the future regulatory regime for the BAA, and in particular the implementation of the recent MMC Report.

As you know, when we discussed Rolls-Royce at E(A) on 20 March we agreed that Rolls-Royce should be privatised as soon as possible after the beginning of September 1986 and that early 1987 might well be appropriate, although we noted that there would be other important candidates at that time. January 1987 is, therefore, our current planning assumption for Rolls-Royce privatisation.

I believe it would be wrong for us to continue work on two privatisations for the same slot, in the knowledge that one will at some stage have to be postponed. When I told Sir Francis Tombs after our meeting on 20 March that we had ruled out the Autumn of 1986 for the privatisation of Rolls-Royce, he argued strongly that a firm target date for the sale should be set as soon as possible. Rolls will be undertaking extensive discussions over the coming months with institutions and with the many banks which provide their financing facilities in preparation for privatisation, and Sir Francis believes it is essential that these discussions should take place against the background of a known timetable. I agree with him. I also believe it is essential for the motivation of those concerned in the company that there should be a firm

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timetable which we can stick to subject only to overriding market or political considerations.

I believe we should therefore decide now which of Rolls-Royce and British Airports Authority should be scheduled for the early 1987 slot, and which should be held back until the late Spring, unless, of course, it is decided that BAA should proceed in July this year. I recognize that the possibility of a British Airways sale in 1987 represents an additional variable, but my understanding is that the position is too uncertain for a firm timetable to be set at this stage.

I naturally hope that you will agree that Rolls-Royce should be allocated the early 1987 slot. There is no doubt that, subject to market conditions, Rolls will be ready for privatisation at that time; although a number of issues, including the capital structure, remain to be resolved, preparatory work on them is well under way and I do not foresee any insuperable problems. Privatisation should bring important benefits to Rolls-Royce in its international business, and the sooner it occurs, the sooner the benefits will start to accrue. If, nevertheless, you or colleagues believe that BAA should take priority, I hope we can discuss the matter before a final decision is taken.

A July flotation of BAA, however, would, as you recognize, have its own problems, and not least of these, from my point of view, is the likely difficulty of putting the details of the system of economic regulation in place in time. The necessary permissions and conditions relating to various aspects of airports' business would need to be ready before the prospectus was published. No doubt you have carefully considered this, and the amount of work it would entail simultaneously with the final stages of the Bill and drafting of the prospectus, but I should be concerned, on competition policy grounds, if this work were seen as taking second place to these other aspects. There is also the question of implementation of the MMC Report on the BAA's commercial activities. It was agreed between us - my letter of 24 February - that there should, exceptionally, in view of the passage of the Bill and the impending flotation, be a single substantive response by the BAA at the end of July. As I said in that letter, it will not help the prospects of a successful flotation if any issues are left outstanding, and the response will need to set out how the Commission's points will continue to be met by the privatised BAA. A July flotation would therefore mean bringing the response forward by a few weeks; moreover, the response would need to be final and definitive, and there could be no question of leaving any issues to be followed up subsequently. With your and the BAA's resources so heavily stretched in the run-up to privatisation, I must say I

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doubt the practicability of this, and I should not want it to go by default, which not only would mean a waste of the considerable effort that has so far gone into the MMC Report, but might also cast doubt on our commitment to Section 11 investigations more generally.

Finally, I do of course have an interest - both from the Rolls-Royce point of view, and more generally - in nothing being done which might reflect badly on the privatisation programme itself, but this is a consideration which you and Nigel Lawson are no doubt weighing carefully.

To sum up, therefore, I agree with your conclusion against attempting a flotation of BAA in July 1986, but I hope colleagues will agree that Rolls-Royce should be allocated the early-1987 slot.

Copies of this letter go to the recipients of your minute.

*Yours,*  
*Paul*

PAUL CHANNON

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