

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

(2)

~~CC NO~~

John Moore Esq
Minister of State
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Prime Minister
To note, in particular
BA
BAA
NBC
Sealink.

3 October 1983

AT 3/10

with AT

Your letter of 9 September to Cecil Parkinson asked for information about the timetable for privatisation of transport industries.

I am enclosing schedules (in the format requested by your letter) dealing with British Airports, British Airports Authority, Civil Aviation Authority, National Bus Company, Sealink and the remaining shareholding in Associated British Ports.

Our discussion on railways at E(NI) on 13 September covered the possibilities for contracting out, greater involvement of the private sector generally and the privatisation of British Rail Engineering Limited. Bob Reid is now considering this in the context of the draft Chairman's brief and I will be coming back to you and colleagues when I hear his reactions.

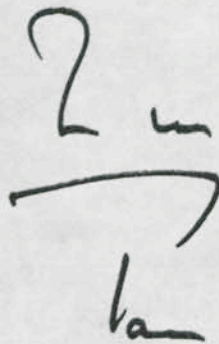
I am also exploring the possibility of changing the status of the public trust ports.

CONFIDENTIAL

CONFIDENTIAL

Looking further ahead, there may be scope for privatising municipal buses and airports. This will need to be considered in the context of local authority activities generally on which Patrick Jenkin is in the lead. I shall however be able to consider what action can be taken on buses in London once I have taken over responsibility for LT.

I am copying this letter to members of the Cabinet and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Tom King'. The signature is stylized, with a large 'T' and 'K'.

TOM KING

CONFIDENTIAL

BRITISH AIRWAYS

- I What preliminary decisions in principle need to be taken and which of these are likely to require collective discussion
(i) how BA's insolvent balance sheet should be rectified;
(ii) whether this can be done without legislation;
(iii) how soon action should proceed. (Collective discussion will be needed.)
- II Whether legislation is needed
Uncertain - see I (ii) above.
- III What structural changes (if any) are thought necessary
None.
- IV Whether particular personnel policies need to be developed (eg on terms and conditions of service)
Changes in pension arrangements, to make them more acceptable to private investors (already in hand).
- V The stage reached to date (eg including whether City advisers have been appointed)
Legislation has been passed for the vesting of BA's business in BA plc and for the flotation (Civil Aviation Act 1980); merchant bank advisers are appointed; the BA Board has restored the airline to profitability.
- VI The expected date of privatisation, and the scale of equity to be sold
Sale of a controlling interest in BA's equity in autumn of 1984 at earliest (but timing will depend on answers to I above).

BRITISH AIRPORTS AUTHORITY

I Preliminary decisions

- (i) whether the Authority (which controls three airports in South East England and four airports in Scotland) should be privatised as a single company, or whether there would be any advantage in sub-dividing it;
- (ii) whether franchising airports, or individual terminals, might engender more effective competition;
- (iii) what sort of regulatory framework would be required to prevent abuse of monopoly power and, possibly, to secure an efficient distribution of traffic;
- (iv) to what extent consultation may be necessary.

To prepare proposals for colleagues by early 1984.

II Need for legislation

Primary legislation would be required for outright disposal, and would probably be needed for a significant extension of franchising.

III Structural changes

Decisions on structure have not yet been taken (see I above).

IV Personnel policies

If the BAA is privatised as a single unit, a policy on the funding of increases to pensions in payment will be needed.

If the Authority were to be split, policies on the redeployment of headquarters common service division staff would also be needed.

V Progress to date

The BAA Board have submitted a first memorandum giving their views on all privatisation and franchising options, and recommending that they should be privatised as a whole. All structural options are still being examined. No City advisers have yet been appointed, but early advice on the structural options and the market effects of any regulatory framework could be useful.

VI Expected date and scale of privatisation

Legislation to privatise the BAA could not be enacted before the 1984/85 session. It is unlikely that a flotation could take place before 1986. The scale on which equity could be sold has not yet been decided.

CIVIL AVIATION AUTHORITY

I Preliminary decisions

- (i) whether the airfields, which with one exception are unprofitable, can be offered in a way which will attract private investment;
- (ii) to what extent Scottish Office should continue to subsidise their operation;
- (iii) whether CAA should be compensated for any loss it incurs as a result of the disposal.

II Legislation

Legislation is not required.

III Structural changes

None required. The aerodromes would be sold as items of real estate (subject to conditions on their use) and not as complete businesses.

IV Personnel policies

It is most unlikely that potential purchasers will want to employ the current workforce on the basis of their existing contracts. Some will be redeployed within the CAA. The remainder (about 100) will probably be made redundant.

V Stage reached

Interim reports on the preparations for the sale have been received from both the CAA and their merchant bank advisers. These are being considered by the Department of Transport and the Scottish Office.

VI Date of privatisation/scale of equity

The CAA should be in a position to advertise the aerodromes before the end of the year. The book value of the assets is

CONFIDENTIAL

2

£6.0M but, as only one of the seven aerodromes (Sumburgh) has ever covered its operating costs under CAA management, the sale is only expected to realise a fraction of this. For some of the aerodromes a continuing subsidy may be required.

CONFIDENTIAL

NATIONAL BUS COMPANY

I Preliminary Decisions

i. Whether to privatise or de-regulate services subject to licensing.

ii. Whether to privatise NBC as a whole or split it up.

iii. Effects on rural areas.
Paper for E(DL) in October

II Need for Legislation

Primary legislation required

III Structural Changes

Decisions on structure to be taken (see I(ii) above)

IV Personal Policies

No major issues

V Stage Reached

Preliminary report from Board's advisers recommends management buy-out. Confirmed by merchant bank report to Department, but advisers not yet retained.

VI Date of Privatisation/Scale of Equity

Management buy-out could be achieved shortly after legislation which could not be enacted before 1984/85 session. It is unlikely that other options could be achieved before 1986. The scale on which equity could be sold depends on method of sale, but may be less than 100% initially.

I Preliminary Decisions

Government and British Railways Board agreed in 1980 to privatise Sealink. BRB are in the lead in devising the method, but the Secretary of State's consent will eventually be required.

II Legislation

Powers to enable BRB to sell subsidiaries taken in the Transport Act 1981.

III Structural Changes

No structural changes needed if Sealink is sold as an entity. There is no natural monopoly of the shipping operation, but Sealink owns a number of ports (eg Folkestone, Newhaven, Holyhead). The current policy, publicly stated, is to seek to privatise Sealink as a whole. Some rival shipping companies would prefer Sealink to be split between ports and shipping. This would take longer and it might lower the proceeds from the sale.

IV Personal Policies

No particular personnel policies needed.

V Staged Reached

BRB, in light of advice from Merchant Bankers Morgan Grenfell. due to put to Ministers this Autumn their view on whether to proceed at once to a negotiated sale with a single company or a consortium of some kind, (to be completed early 1984) or whether it would be better to delay possibly with a view to a public flotation in late 1984.

VI Expected Date and Scale of Privatisation

Date of privatisation not yet decided. BRB may wish to retain a minority shareholding.

ASSOCIATED BRITISH PORTS - REMAINING GOVERNMENT SHAREHOLDING
(48.5%)

I Preliminary Decisions

None

II Need for Legislation

None

III Structural Changes

None

IV Personal Policies

Management will need to reassure unions that no change in their position is implied.

V Stage Reached

Decision in principle required on whether to go ahead with early sale. There is a need to consider the effect of a possible national dock strike, eg as the result of action to deal with the problems of the PLA.

Expected Date and Scale of Privatisation

Timing is subject to market constraints and the situation in the industry. Advisers need to be consulted on method of sale and whether to market the whole of the residual holding or whether sales should be phased.

ELON FOR
Privatization
Pt 7

583 OCT 2

12 11 10 9 8 7 6 5 4 3 2 1