

S E C R E T

FILE

B/C MR KERR HMT R M

MR P GREGSON C.O.



cc S Redwood

10 DOWNING STREET

18 November, 1983

From the Private Secretary

*cc Aeroplane
future of BA*

Your Secretary of State came to see the Prime Minister today. Also present was Mr. Alison.

He began by outlining his thinking on the privatisation of British Airways. He was considering an arrangement under which BA would appeal to the Courts for a reduction of capital. Sufficient new arrangements would be issued to the market which would reduce HMG's holding below 50 per cent, thus avoiding the transfer of BA to the private sector. The funds raised from the share sale would be used to re-pay part of BA's debts.

Your Secretary of State said he was sympathetic to the proposals which British Caledonian had made recently for a transfer of routes and assets. In his view, there would be merit in building up B.Cal (and possibly other airlines) so that the UK industry was less dominated by one airline. It was not, in the short term at least, a question of competition since B.Cal would rarely be competing directly with British Airways on any particular route. It was more a question of adjusting the financial strength of the two companies.

He had no powers to require British Airways to shed routes and assets but if he had the backing of the Prime Minister he would speak to Lord King to persuade him of this course. This would also make sense financially, as selling assets would be a contribution by BA to the reduction of its own debts.

The Prime Minister said that she too was sympathetic to evening up the balance between BA and B.Cal. She admired the way Sir Adam Thomson had built up an effective airline without Government subsidy. She agreed that your Secretary of State should take this up with Lord King.

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The meeting then considered the timing of privatisation. Lord King was pressing for this to take place in the autumn of 1984. Your Secretary of State doubted whether all the necessary steps could be completed in time for that; in any case that part of the market calendar was blocked off by BT and he did not favour delaying BT to make room for BA. The spring of 1985 looked a more likely time though the timetable could be accelerated in the unlikely event that BT were delayed. He would be producing a paper for colleagues shortly on his proposals.

The meeting then turned to a discussion of the Severn Bridge. Your Secretary of State said that it could be strengthened and would remain usable for many years but that a crisis of confidence was developing which could damage growth in South Wales. Announcement by the Government of its intention to build a second bridge, even some years hence, would serve to allay fears.

The Prime Minister said she recognised the force of these arguments. It was agreed however that your Secretary of State would study the issues over the next few months before reaching any conclusions.

Your Secretary of State said he was concerned about the regime for the bus industry which was absorbing over £600 million in subsidies. His priority was to examine the whole regime of regulation and subsidy rather than turning over NBC, with its 80 per cent market share, into a regulated, subsidised and unionised regime. In consequence he did not wish to proceed with the NBC privatisation proposals for the time being. The Prime Minister was content with this approach.

MR T. TURNBULL

Miss D.A. Nichols,
Department of Transport