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no



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Charles Marshall Esq
Private Secretary to
The Rt Hon John Biffen MP
Lord Privy Seal and
Leader of the House of Commons
House of Commons
LONDON SW1A 0AA

9 December 1983

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12/12

Dear Charles

STATEMENT ON BRITISH AIRWAYS PRIVATISATION:
MONDAY 12 DECEMBER 1983

I wrote to you on 2 ^{attached.} December, and subsequently received confirmation from your office, the Whips' Office and No 10 that we could go ahead with our statement on Monday 12 December (barring emergencies).

A draft of the statement was circulated by my Secretary of State under cover of his letter to the Chancellor of the Exchequer of 7 December. I now attach what is intended to be the final version, incorporating points made by E(DL) colleagues.

Please let me know if you have any comments at this stage. This invitation applies also to Tim Flesher at No 10 and Murdo Maclean in the Whips' Office, to whom I am copying this letter.

Yours sincerely,

Henry Derwent

H C S DERWENT
Private Secretary

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BRITISH AIRWAYS: DRAFT PARLIAMENTARY STATEMENT BY SECRETARY OF STATE FOR TRANSPORT ON 12 DECEMBER 1983

1. With permission, Mr Speaker, I should like to make a statement about British Airways.
2. The Government's intention of moving British Airways into the private sector was announced by my rt hon Friend the then Secretary of State for Trade in July 1979. Legislation to achieve this was passed in the Civil Aviation Act 1980.
3. Our original intention was to go ahead with a sale soon after the passing of the Act, but the decline in the airline's profits in 1979/80 and the large losses in the two subsequent years made that impracticable.
4. Over the last two years, however, decisiveness on the part of management and determined co-operation from the workforce have sharply improved British Airways' productivity; and the airline industry is now emerging from the world recession. British Airways made a net profit of £77m in the financial year ended last March; and they are set to make significantly higher profits this year.
5. British Airways have also begun to restore their balance sheet. Since March they have repaid well over £100m of borrowings without any assistance from the Government. Their external finance limit fixed for 1984/85 means we expect British Airways to repay at least £160m of borrowings next year.

6. Following this transformation of British Airways' financial prospects I have decided to aim for privatisation as soon as possible, hopefully in early 1985. To this end I propose to establish British Airways as a public limited company under Government ownership in accordance with the 1980 Act.

7. I am accordingly arranging for the registration of a public limited company under the name of British Airways Plc without at this stage giving it the right to trade, and I shall shortly make an order nominating it as the successor company to the British Airways Board under section 3(2) of the 1980 Act. I shall place a copy of the memorandum and articles of association of the new company in the library of the House. I also propose soon to make an order under section 10(1) of the 1980 Act appointing 1 April 1984 as the day on which the property, rights, liabilities and obligations of the British Airways Board in the UK are vested in British Airways Plc. All this needs to be done well in advance of vesting to allow time for the necessary administrative steps, such as arranging the transfer of overseas property and rights from the British Airways Board to British Airways Plc.

8. Shortly before vesting British Airways Plc should be issued with a certificate to trade under section 4 of the Companies Act 1980, so that it can take over the airline's business from 1 April. At that stage I shall provide British Airways Plc with the statutory minimum of £50,000 share capital. I shall be seeking a supplementary vote for this purpose in due course.

9. From 1 April 1984 onwards, therefore, British Airways will be trading as a Companies Act company wholly owned by the Government. During this period we shall exercise the degree of financial control appropriate to our role as sole shareholder. I shall inform the House early next year of the regime that will govern relations between the Government and British Airways in the period between vesting and the offer for sale: but one element will be an assurance in similar terms to that given in 1980 to British Aerospace in similar circumstances, declaring that the Government continues to stand behind the company and will not allow it to default on its debts. This commitment will not of course extend to any debts falling due after the offer for sale.

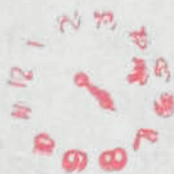
10. Final decisions on the timing of privatisation will depend on the airline's financial performance in the meantime, on the state of the stock market and on the general prospects for the airline industry.

11. There has been considerable interest in the press lately, and in some parts of the airline industry, about whether a capital reconstruction of the airline will be necessary. I have reached no firm decision about this. It will depend in part on British Airways' financial performance over the coming year. My aim is that as far as possible the necessary improvement to the airline's balance sheet should come through its own efforts.

12. Mr Speaker, British Airways has remained for too long preparing for take-off. It is a great tribute to Lord King, the British Airways Board and the entire staff of the airline that I can today position the airline on the runway for take-off into the private sector.

Econ. Pol. - Privatization Pt 8

-9 DEC 1983



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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 December 1983

Miss Dinah Nicols
Private Secretary to the
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1

Dr 7/12

Dear Dinah,

BRITISH AIRWAYS PRIVATISATION: STATEMENT TO PARLIAMENT

The Chancellor has seen the draft statement on the privatisation of British Airways which your Secretary of State enclosed with his letter of 7 December.

The Chancellor is generally content with the text, subject to any comments which other colleagues on E(DL) Committee may have. However, he has proposed one small amendment to the first line of paragraph 4 where he suggests the word "courage" should be replaced by "decisiveness". He feels that the use of the word "courage" in this context could lead to unnecessary adverse comment.

I am copying this letter to Andrew Turnbull (No 10), the Private Secretaries to other members of E(DL), to Janet Lewis-Jones (Lord President's office), David Heyhoe (Lord Privy Seal's office), Murdo MacLean (Chief Whip's office), David Beamish (Lord Whip's office) and Richard Hatfield (Cabinet Office).

*Yours sincerely,
Margaret O'Mara*

MISS M O'MARA

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

7 December 1983

Dear Nigel

BRITISH AIRWAYS PRIVATISATION: STATEMENT TO PARLIAMENT

In accordance with E(DL)'s decision of 24 November I am planning to announce to Parliament next Monday, 12 December the steps I am about to take towards the privatisation of British Airways, hopefully in early 1985.

/ I attach a draft of my statement. It has already been discussed with your officials. If you or other colleagues have any comments I should be glad to receive these by Thursday evening 8 December.

I am copying this letter and the enclosed statement to the Prime Minister, the members of E(DL), the Lord President, the Lord Privy Seal, the Chief Whip, Lord Denham and Sir Robert Armstrong.

Nicholas Ridley
Nru.

NICHOLAS RIDLEY

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BRITISH AIRWAYS: DRAFT PARLIAMENTARY STATEMENT BY SECRETARY OF STATE FOR TRANSPORT ON 12 DECEMBER 1983

1 With permission, Mr Speaker, I should like to make a statement about British Airways.

2 The Government's intention ^{that} ~~(of selling a controlling stake)~~ ^{should become a} ~~to the private sector~~ ^{company} was announced by my Rt Hon Friend the then Secretary of State for Trade in July 1979. Legislation to achieve this was passed in the Civil Aviation Act 1980.

3 Our original intention was to go ahead with a sale soon after the passing of the Act, but the decline in the airline's profits in 1979/80 and the large losses in the two subsequent years made that impracticable.

4 Over the last two years, however, courage on the part of management and determined co-operation from the workforce have sharply improved British Airways' productivity; and the airline industry is now emerging from the world recession. BA made modest profits in the financial year ended last March; and they have now reported significantly higher profits - of £162m - for the six months from April to September this year.

5 As well as becoming once more profitable, British Airways has begun to restore its balance sheet. Since March they have repaid well over £100m of borrowings without any assistance from the Government. Their external finance limit fixed for 1984/85 means we expect British Airways to repay at least a further £160m of borrowings next year.

6 Following this transformation of British Airways' financial prospects I have decided to aim for privatisation as soon as possible, hopefully in early 1985. To this end I propose to establish British Airways as a public limited company under Government ownership in accordance with the 1980 Act.

7 I am accordingly arranging for the registration of a public limited company under the name of British Airways plc without at this stage giving it the right to trade, and I shall shortly make an order nominating it as the successor company to the British Airways Board under section 3(2) of the 1980 Act. I shall place

a copy of the memorandum and articles of association of the new company in the library of the House. I also propose soon to make an order under section 10(1) of the 1980 Act appointing 1 April 1984 as the day on which the property, rights, liabilities and obligations of the British Airways Board in the UK are vested in British Airways plc. All this needs to be done well in advance of vesting to allow time for the necessary administrative steps, such as arranging the transfer of overseas property and rights from the British Airways Board to British Airways plc.

8 [To be included if necessary: Shortly before vesting it will be necessary for BA plc to be issued with a certificate to trade under section 4 of the Companies Act 1980, so that it can take over BA's business from 1 April. At that stage I shall have to provide BA plc with the statutory minimum of £50,000 share capital. I shall be seeking a supplementary vote for this purpose in due course.]

9 From 1 April 1984 onwards, therefore, British Airways will be trading as a Companies Act company wholly owned by the Government. During this period we shall exercise the degree of financial control appropriate to our role as sole shareholder. I shall inform the House early next year of the regime that will govern relations between the Government and BA in the period between vesting and the offer for sale: but one element will be a guarantee in similar terms to that given in 1980 to British Aerospace in similar circumstances, declaring that the Government continues to stand behind the company and will not allow it to default. This guarantee will not of course extend beyond the offer for sale.

10 Final decisions on the timing of privatisation will depend on the airline's financial performance in the meantime, on the state of the stock market and on the general prospects for the airline industry.

11 There has been considerable interest in the press lately, and in some parts of the airline industry, about whether a capital reconstruction of the airline will be necessary. I have reached no firm decision about this. It will depend in part on BA's financial performance over the coming year. My aim is that as far as possible the necessary improvement to the airline's balance sheet should come through its own efforts.

12 Mr Speaker, British Airways has remained for too long preparing for take-off. It is a great tribute to Lord King, the British Airways Board and the entire staff of the airline that I am in a position today to position the airline on the runway for take-off into the private sector.

CAP1
Department of Transport
6 December 1983

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cc: E(DL)
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+ LPO
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Capt/Gent/Arms

10 DOWNING STREET

From the Private Secretary

8 December 1983 Co

D/Energy
CSO, HMT
FSO, HMT

BRITISH AIRWAYS PRIVATISATION: STATEMENT TO PARLIAMENT

The Prime Minister has seen the draft Statement attached to your Secretary of State's letter to the Chancellor of 7 December. She is content with it and content that it should be made next Monday, 12 December.

I am sending copies of this letter to the Private Secretaries to the members of E(DL) and to the Private Secretaries to the Lord President, the Lord Privy Seal, the Chief Whip, Lord Denham and Sir Robert Armstrong.

Andrew Turnbull

Miss Dinah A. Nichols,
Department of Transport.

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PRIME MINISTER

BRITISH AIRWAYS PRIVATISATION: STATEMENT TO PARLIAMENT

I attach the draft of Mr. Ridley's Statement on British Airways privatisation. I have suggested an amendment at paragraph 2. The original draft repeated the formulation about selling a controlling stake. Since it is the intention to sell 100%, this could be held to be misleading. DOT do not want to go firm on 100% as in the event market circumstances may not permit them to achieve this. The revised wording I have suggested, which parallels that in the Manifesto, leaves the 100% option open without appearing to repeat the 51% formulation.

Mr. Ridley will certainly be questioned about route transfers. Authority for this lies with the CAA and the Secretary of State is in an appellate position vis-a-vis the CAA and this limits what he can say. He is likely to use a formulation such as "I have no powers to effect a transfer of routes but if airlines can themselves reach agreement on transferring routes and related assets, I would have no objection."

Since he came to see you, Mr. Ridley has spoken to Lord King, indicating that the Government favours a transfer of routes. Lord King acknowledged that he was being given a clear political steer. He has gone back to talk to his Board, but no more has been heard since then.

AT

7 December 1983

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TF No policy objection. AT
though we need to see the
content of the statement

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Charles Marshall Esq
Private Secretary to
Rt Hon John Biffen MP
Lord Privy Seal and Leader of
the House of Commons
Privy Council Office
68 Whitehall
LONDON SW1A 2HB

Agreed to
X by phone

2 December 1983

Dear Charles

AT
2/12.

STATEMENT ON BRITISH AIRWAYS PRIVATISATION: MONDAY 12 DECEMBER 1983

I had a word with you on the telephone about this statement, and you offered a choice of dates: 7, 8, 11 and 12 December. I heard subsequently from the Government Whip's Office and No.10 that 7 December was less acceptable, and of the three remaining we would like to go for Monday 12.

The privatisation of British Airways was discussed in E(DL) on 24 November. Agreement was given to steps including an early announcement to Parliament. The announcement my Secretary of State proposes to make would mark the beginning of the formal process of privatisation. There has been considerable political interest on both sides of the House in this matter. The press too have been giving substantial coverage to it, particularly in the light of the proposals canvassed by Sir Adam Thomson of British Caledonian.

We will naturally show you a draft of the statement in due course, but its main message will be that the Secretary of State proposes to vest British Airways PLC under the powers contained in the Civil Aviation Act 1980 on 1 April 1984, with a view to a sale in early 1985 (as particularly requested by E(DL)); and that he proposes to tell the Board of BA to make the necessary preparations for vesting.

I would be very grateful if you, Tim Flesher at No.10 and Murdo MacLean in the Government Whip's Office (to whom I am copying this letter) could ask for agreement to our making the statement on that day.

yours sincerely,

Henry Derwent

H C S DERWENT
Private Secretary

Een Rst: Privatisatie #8

DEC 1985

