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PRIME MINISTER

7 March 1986

BA PRIVATISATION

There are compelling reasons to press ahead with the  
early flotation of BA. Lord King is right to claim that the  
billion pound question over BA's future fleet replacement  
programme is not a decision which should be taken in  
Whitehall; nor the settlement of generous pay increases to  
BA's engineers and pilots. Unfortunately, just as we have  
devised a sufficiently candid disclosure of BA's remaining  
anti-trust liabilities, a new obstacle blocks our way.

Two years ago, the Government opened negotiations with  
the US on the capacity arrangements for North Atlantic air  
services (Bermuda 2) following expiry of the current régime in  
July 1986. It was hoped that by now a satisfactory outcome  
would be in sight. But after the recent round of  
negotiations, the two sides are still a long way apart and  
will probably remain so until the July deadline; whilst  
neither Government can relish the termination of Bermuda 2,  
the possibility of threat becoming reality cannot be ruled  
out.

Announcing a firm decision to privatise BA in July 1986,  
would undoubtedly weaken the Government's negotiating position  
over Bermuda 2. It would be one thing to contemplate a trade-  
off of early privatisation versus a less favourable outcome of  
the Bermuda 2 negotiations if BA alone were affected. It is

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another to disregard BCal's commercial interests. Over 35% of BCal's revenue comes from North Atlantic routes. They are more vulnerable than BA to competition from the powerful US airlines with exclusive access to domestic hub and spoke systems in the US. Sir Adam Thomson is a robust operator. In his position, I would challenge the Government in the courts and mount a fierce publicity campaign.

The gathering momentum within BA for a July 1986 flotation is about to run into this obstacle. Lord King and his colleagues began their privatisation roadshows in mid-January. Only yesterday, they repeated the razmatazz exercise in front of 150 enthusiastic Tory MPs.

The question now is how to prevent Lord King and his management team lashing out wildly in anger and frustration. This is not the time for a rancorous resignation by the Chairman of BA.

We need to execute a deft, matter-of-fact retreat in apparent unity with BA. The latter is crucial. This probably entails giving BA a firm undertaking to proceed towards a publicly-announced flotation date as soon as the Bermuda 2 negotiation has been completed. That could mean flotation as early as September 1986, although the probable date would be early in 1987 following a July resolution of the Bermuda 2 negotiations. The signs are that BA do not yet fully appreciate the importance of the Bermuda 2 negotiations for their own commercial prospects. (25% of their revenue comes

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from North Atlantic routes.) When they do, acceptance of a delay of some 6 months should be easier.

The press are already anticipating a delay. Provided a short statement explaining the background to the delay is backed by BA so that there is no evidence of conflict to be exploited by the press, a quiet retreat can be accomplished.

Attached is an initial draft of the sort of statement which Nicholas Ridley might issue in the form of a written Parliamentary answer. We would take issue only with the final paragraph. Now surely is the time to put a firm, publicly-stated limit on the exercise - ie before the end of the financial year 1986/7. Whitehall's caution needs to be checked.



JOHN WYBREW

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DRAFT WRITTEN PARLIAMENTARY ANSWER

To ask the Secretary of State if he will make a statement about the privatisation of British Airways [in the light of his recent visit to the USA]

DRAFT ANSWER

The Government's aim remains to privatise British Airways as soon as possible.

30 My Department is currently engaged in important negotiations with the US Government about UK/US air services and competition. This market is of great importance to all the British airlines which serve it, accounting, for example, for about 25% of British Airways' total revenue and [ & ] of British Caledonian's total revenue. It is most important in the interests of all British airlines, not least British Airways, that we secure an agreement with the US Government which enables our airlines either to compete on fair and equal terms for all the traffic between our two countries or failing that which safeguards our vital interests. Without such an agreement the ability of our airlines to maintain or improve their competitive position would be severely undermined. I made our position perfectly clear during my recent visit to the United States, and whilst I am hopeful that as a result of my visit it will be possible to negotiate acceptable arrangements over the coming weeks, it would be irresponsible to proceed with privatisation of BA while there is uncertainty about the air services agreements with the US on which such a large part of the business depends.

I also took the opportunity of my visit to the USA to explain our concern about the unilateral application of anti-trust laws to international civil aviation. Until such time as

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the US authorities rectify the situation, it is for British Airways and other defendants to decide how best to deal with cases brought against them. While British Airways hope that the American court will shortly give its final agreement to the provisionally approved settlement of the class action brought on behalf of North Atlantic travellers who claim to have been disadvantaged as a result of the collapse of Laker Airways, two further anti-trust actions relating to the collapse of Laker Airways have now been filed in the US against British Airways and other defendants. The company admitted no liability in the earlier litigation and have strongly denied the claims in these two suits. I understand they will defend these cases vigorously but a successful result may take some time.

Taking all these factors into account I have decided, with great reluctance, not to set a firm timetable for privatisation for the time being. I shall keep the matter under review, and take the first opportunity to proceed when I judge the situation has been sufficiently clarified.

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