

Prime Minister

cc Mr. Hoskyns
Mr. Vereker

Mr Biffen is seeing Sir J King today

will report before your meeting on 8 April.
MCS 17/3

Aeroplan

MR. SCHOLAR

BRITISH AIRWAYS: PRICE WATERHOUSE REPORT

1. This is a most depressing document. The basic suggestion is that the Government should take over £812m of British Airways' debt, which is I think mostly owned by banks. On their reckoning this would mean that the debt equity ratio would then be 83:17. There would be about £300m of debt and £60m of equity.

Yes - part of PSBR inst included in any plans

2. In order for the Government to take over this debt, or write off the small amount that is on the Government's account, we would need to raise the £812m in the markets. It would willy-nilly count as part of our PSBR. So far as I know, no such sum has been included in the public expenditure figures for next year.

- but spread out over 8-10 years. MCS 17/3

and on debt liability

3. In return for this purchase of British Airways debt, the report remarks that we would enjoy a substantial increase of the net worth of the group and the expected proceeds of privatisation. But obviously the proceeds from privatisation depend critically on future expected profits and these in turn depend upon pay levels, manning practices, as well as general management. Similarly it would be affected by the political constraints which are imposed on British Airways - including the requirement that they fly certain routes etc. Price Waterhouse suggest that the capital restructuring is a necessary requirement to put it into shape. I cannot really see why.

4. The main thrust of British Airways should be to get it into a form like Delta. The objective is clear, to make profits, and strategy should be drawn up with that in mind. It is difficult to do this when there are enormous political constraints and they do not know how far they can go in dealing with the unions. But I cannot see how transferring capital to Government can help in radical restructuring of their objectives, strategy and tactics. I suspect that Sir John King needs a few young Turks around him. Perhaps he is gathering them now.

ALAN WALTERS

17 March 1982