



Prime Minister (4)

MCS 27/5

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

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27 May 1982

Dear Chancellor,

BRITISH AIRWAYS: SALE OF INTERNATIONAL AERADIO LIMITED

As you may be aware, British Airways are intending shortly to dispose of their subsidiary, International Aeradio Limited (IAL), which is a profitable company specialising in aviation consultancy, communications and related activities.

Sir John King and his Board consider that the company is not central to British Airways' business and that responsibility for its management is better located elsewhere. I entirely agree. IAL is diversifying into many non-aviation fields, and indeed at present is currently supervising the construction of a major hospital in Saudi Arabia. It needs new money for such ventures; I do not think we should provide it and disposal is the only way of allowing this diversification to go ahead. Moreover, the proceeds could be substantial and help BA with its financial problems including the task of living within this year's EFL. For these reasons, they (and I) are keen to move fairly fast on the disposal.

The question of disposal is essentially one for the judgement of the BA Board: under existing legislation, I have no formal powers to prevent BA disposing of IAL, or to direct them as to the method of sale. However, I have already made it clear to Sir John King that I would expect to be consulted about the way



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in which he intends to dispose of it. From a political point of view, it is clearly important that there is no avoidable criticism over the handling of the disposal; I am sure that Sir John King has taken this point on board.

The main questions that arise on the method of sale are as follows. First, BA, advised by both Price Waterhouse and Warburgs (BA's own merchant bank adviser), think that disposal of IAL to a single buyer should enable benefits to be obtained if the buyer was in a complementary field of activity; such a disposal could therefore be expected to command a significant premium over a flotation. BA therefore favour disposal to a corporate buyer (via an auction among the candidates) rather than a flotation, in order to maximise the proceeds (which could be of the order of £50-£60m). I would not wish to take a different view on this; and I imagine you would not dissent.

Second, there are aspects of the choice of buyer. First, I would be strongly opposed to any question of disposal of IAL to a public sector buyer, even though there has been some interest expressed by British Telecommunications and the British Airports Authority. We are trying to reduce the size of the public sector not helping it to entrench itself even deeper into the national economy. I have already indicated an initial view on this to Sir John. A second aspect relates to whether we should express any view to BA about a disposal to a foreign buyer. I can see that there might be criticism of such a disposal. But there is considerable advantage in not ruling out a foreign buyer at this stage, in order not to depress the price. Moreover, since IAL operates in Saudi Arabia, it would be most tactless to exclude the Saudis should they be tempted to bid. Further, if it became publicly known that we had attempted to limit the sale to a

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United Kingdom buyer, we could run into international criticism, particularly from our Community partners and from the United States (who had proved sensitive in the last year to cases where they thought we might be departing from our general policy of welcoming inward investment). Nonetheless, I would propose to indicate to Sir John King that while I did not suggest that the Board should narrow the field by excluding foreign bids, I hoped that they would take into account in weighing such bids, whether the bidders' plans might lead to the company making less of a contribution to the British economy.

Finally, although I do not think - for the reasons set out above - that I should make it appear to the Board that my consent is required, I propose to ask Sir John to consult me if the Board is minded to close with a bidder in any unusual circumstances - for example, if the proceeds from the bid fall substantially below the Board's present expectations or if the preferred bidder offered substantially less than the highest bidder. I should take a similar line on the question of a public sector purchase with Norman Payne; and I hope Patrick Jenkin would do the same with Sir George Jefferson.

Subject to any comments by you or other colleagues (which I should be glad to have by Wednesday 2 June), I propose to take the line indicated above with Sir John King.

I am copying this letter to the Prime Minister, other members of E(NI), to John Nott and Sir Robert Armstrong.

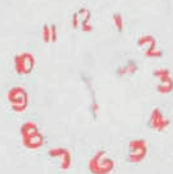
Yours sincerely,

LORD COCKFIELD

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(Approved by Secretary of State
and signed in his absence)

07 MAY 1962





NBPM Ms 1/6

cc J/K

CONFIDENTIAL*From the Secretary of State*

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

28 May 1982

Dear Peter

BRITISH AIRWAYS: SALE OF INTERNATIONAL AERADIO LIMITED

*Under-
neath*

I am sorry that there is a typing error on the last page of my Secretary of State's letter to the Chancellor dated yesterday.

The last sentence in paragraph 2 which begins "I should take a similar line" should be the final sentence in paragraph 3. Thus the third paragraph should read:-

"Subject to any comments by you or other colleagues (which I should be glad to have by Wednesday 2 June), I propose to take the line indicated above with Sir John King. I should take a similar line on the question of a public sector purchase with Norman Payne; and I hope Patrick Jenkin would do the same with Sir George Jefferson."

I am copying this letter to the recipients of my Secretary of State's letter. I should be grateful if it could be amended accordingly.

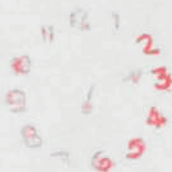
Yours ever

Patricia A McNulty

MISS P A McNULTY
Private Secretary

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28 MAY 1982



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Aerospace

Prime Minister (2)

MUS 3/6



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

3 June 1982

Lord Cockfield
Secretary of State for Trade
1 Victoria Street
LONDON
SW1H 0ET

BRITISH AIRWAYS: SALE OF INTERNATIONAL AERADIO LIMITED

Thank you for your letter of 27 May about the proposal from British Airways to sell IAL.

I am in broad agreement with the line you propose to take. In particular, disposing by means of bids from interested corporate buyers should both maximise the proceeds - which is important - and speed up the disposal. I also agree with you that to dispose of IAL to a public sector buyer would be to make a nonsense of the philosophy underlying our privatisation programme.

I am sending copies of this letter to the other recipients of yours.

GEOFFREY HOWE

03 JUN 1962





JFF842

Secretary of State for Industry

Prime Minister ⁽²⁾
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ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

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MS 8/6

7 June 1982

The Rt Hon The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1H 0ET

Dear Arthur,

BRITISH AIRWAYS : SALE OF INTERNATIONAL AERADIO LIMITED (IAL)

Thank you for copying to me your letter of 27 May to Geoffrey Howe.

2 I agree that we should not rule out a foreign buyer for IAL. Quite apart from the objective of getting the best price for the disposal, foreign ownership can in my experience sometimes prove beneficial. Furthermore, as you yourself recognise, if the Government were seen to restrict the sale to UK buyers we could meet considerable international criticism to the detriment of our efforts to attract inward investment. Because of this latter consideration I should welcome the opportunity to comment if a foreign bid seems likely to be a runner.

3 I agree too that in principle we should oppose the disposal of IAL to a public sector buyer. I have therefore written to Sir George Jefferson asking him to consult me if BT propose to pursue their interest further.

4 I am copying this letter to The Prime Minister, Members of E(NI), John Nott and Sir Robert Armstrong.

Your ever
Patul