

SUBJECT

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9 November 1982

From the Private Secretary

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Dear John,

BRITISH AIRWAYS: PRIVATISATION

The Prime Minister held a discussion this afternoon about the matters raised in your Secretary of State's minute to the Prime Minister of 4 November, together with the attached paper. The Chancellor of the Exchequer, the Lord President of the Council, the Chief Secretary, Treasury, Sir Robert Armstrong and Mr. Sparrow were also present.

It was argued that there was a strong case for putting a receiver into British Airways immediately. He would deal with BA's indebtedness, would call the Treasury guarantees, and would sell the business as a going concern. But this course was ruled out by the fact that it could not be followed without legislation. An alternative would be to push ahead as quickly as possible, aiming for privatisation in late 1983 or early 1984, as recommended in paragraph 22 of the paper. This would require legislation, and a cash injection into British Airways in the region of £600 - £750 million. BA were now making an operating profit, and were forecasting a profit next year after payment of interest. The timetable for privatisation in 1983/84 was having, and would continue to have, a very desirable effect in galvanising the Corporation. Postponement of privatisation would all too easily cause BA to slip back into the morass.

Against this, it was argued that such a timetable would cause considerable political difficulties, both with the Opposition, who would criticise the arrangements as being a very poor deal for the taxpayer; and also with BA's private sector competitors, who might reasonably feel (although they were not in fact in direct competition with BA route by route) considerable resentment about BA's debts being forgiven. It was not clear where the balance of advantage lay as between reconstructing BA's balance sheet as soon as possible, so as to give them the possibility of showing reasonable financial results, and postponing any reconstruction, so as to set them the task of repaying some of their indebtedness through their profits. Certainly, to give them no cash injection and to

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require them to repay their debt wholly from profits would entail their remaining in the public sector for many years. Equally, to make an immediate reconstruction, with a very large cash injection, would give entirely the wrong signal. A middle course would be to envisage a cash injection at some stage, after BA had made some progress in themselves reducing their indebtedness; and to limit a cash injection to a sum well below that envisaged in paragraphs 12 to 15 of your Secretary of State's paper - say to £200 million or to such sum as would be compatible with a 3:1 debt/equity ratio. BA would thereafter aim to improve their financial position steadily, so as to enable them to go to the market with a good track record before too long.

The Prime Minister said that it was agreed that we should not contemplate introducing legislation providing authority to restructure BA's accounts this side of the General Election. Both political and economic considerations argued for the adoption of the middle course which had been identified in the discussion, and if legislation could be brought forward very soon after the General Election privatisation should not be put back as far as 1986/87. Much would depend on BA's progress, and on the quality of its management.

I am sending a copy of this letter to the Private Secretaries to those present at this afternoon's meeting. I would be grateful if you and they would ensure that it is seen only by those specifically authorised to do so by your Secretary of State.

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,
Department of Trade.