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Treasury response

cc NO

DEPARTMENT OF TRANSPORT  
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01-212 3434

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

30 January 1984

Dear Nigel

BRITISH AIRWAYS PRIVATISATION: MARKET FOR SHARES IN THE  
UNITED STATES

I have lately been considering whether we should follow the example of the Department of Trade and Industry in respect of British Telecom by examining the possibility, without commitment, of an issue of British Airways' shares on the New York stock exchange simultaneously with the UK flotation. BA and their advisers Lazards are strongly in favour of this - BA have indeed already retained the services of a US merchant bank adviser, Goldman Sachs, to this end. Our own advisers, Hill Samuel, agree that we should keep open the option of a New York issue and should investigate the pros and cons and the timetable further. There are of course other possibilities of raising money on the Eurobond market, and perhaps even Japan, which we may in due course wish to consider.

I accept Hill Samuel's view. As you know, we have now made it our target to dispose of 100% of the airline's equity and this may prove to be beyond the capacity of the London market at one offering. Capacity in New York is also limited; and we should probably not wish to market more than a modest proportion of BA's shares there. Nonetheless a New York flotation will help us both to keep the price and proceeds up and to dispose of all the shares we wish to sell.

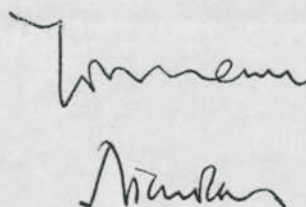
We shall need to ensure that a New York flotation does not lead to substantial ownership or effective control of BA falling into foreign hands. However even if BA were floated only in London we would need safeguards (and we are already examining how to provide these). I certainly do not see the problem of foreign control as ruling out further consideration of the New York option. As you may be aware, KLM Royal Dutch Airlines recently made a successful issue on the New York stock exchange (although in that case I understand that the Dutch Government retains a majority shareholding).

In order to examine further the implications of a US flotation, I shall need to take expert advice from an American merchant bank (I do not feel that I can rely on advice from BA's appointee: BA's and my interests may not always coincide). Even if we decide eventually against a simultaneous New York issue, we shall in any case benefit from a US bank's advice on how best to arrange the London flotation to maximise secondary investors' interest in North America and leave the way clear for a later issue there should we fail to sell 100% the first time round.

I propose therefore to arrange a competition of eligible US banks with a view to making an appointment. This is bound to become public knowledge, and it will be damaging if it is interpreted as a sign that we are definitely proceeding with an issue of BA shares in New York and we then later decide against this. We shall therefore need to make it clear publicly that we have not decided in favour of a New York issue; but that we need advice on the pros and cons; and in any event, with an international business like BA, and with London's little experience of airline stocks, we shall benefit from US help with the marketing and pricing of the shares on the stock exchange here.

I understand that my officials have discussed all this fully with yours, and that there are no differences between them. I felt, however, that I should let you know personally how I propose to proceed.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.



NICHOLAS RIDLEY

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

7 February 1984

*Dear Nicholas,*

BRITISH AIRWAYS PRIVATISATION: MARKET FOR SHARES IN THE US

Thank you for your letter of 30 <sup>attached</sup> January to Nigel Lawson, to which he has asked me to reply.

I am quite content for you to proceed as you propose to arrange a competition of eligible US Houses, with a view to appointing one to help with advice both on the prospects of a flotation of BA in the US and on the international dimension of the BA sale more generally.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

JOHN MOORE

MEMORANDUM  
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2/13/84

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