



10 DOWNING STREET

Prime Minister ②

SEE SISDTI TO
ON 16X 2/12

To note this disagreement
between colleagues and
the steps being taken to
resolve it.

| | |
|--------|---|
| SS/TI | } favour subordinating Scottish airports of BAA & MMC |
| SS/Enw | |
| CST | |

| | |
|----------------------------|-----------|
| Chancellor of the Duchy | } against |
| SS/Scotland | |
| SS/Tsp | |

You are recorded as in favour,
but subject to views of
colleagues.

AT

5/12

ms



JU97

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

CCAO

CONFIDENTIAL

2 December 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

D. Nigel

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES & MERGERS
COMMISSION (MMC)

I wrote to you as Chairman of E(NI) on 27 October with my proposals for the 1984 programme of nationalised industry references to the MMC.

2 Following correspondence and a discussion I have had with George Younger, the issue of the inclusion of the Scottish Division of the British Airports Authority remains unresolved. I had hoped we should be able to discuss it in E(NI) next week and the text of the short paper I should have tabled is attached. However, as you know, that Committee is now unlikely to meet until the New Year.

3 I am therefore writing to ask you to convene and chair a brief ad hoc discussion between George Younger, Nicholas Ridley, Peter Rees and me so that we may settle this one outstanding point and clear the way for the early announcement of the 1984 programme.

4 I am copying this letter to the Prime Minister, the Secretaries of State for Transport and Scotland, the Chief Secretary and Sir Robert Armstrong.

Norman

NORMAN TEBBIT



NATIONALISED INDUSTRY REFERENCES TO THE MMC:
1984 PROGRAMME

The Government has publicly stated a target of making up to six nationalised industry references to the Monopolies and Mergers Commission in any one year. I see strong political arguments for meeting that target to the full. We need to show that we are maintaining effective pressure on nationalised industries to improve efficiency especially against the background of the St John Stevas Bill.

2 I have reached agreement with colleagues for a programme of five references for 1984. I propose that the sixth reference should be an efficiency audit of the Scottish Division of the British Airports Authority. The Division makes a trading loss and gives rise to the concern that its airports (Aberdeen, Prestwick, Glasgow and Edinburgh) might not be as efficiently managed as those in the South East.

3 The Secretary of State for Scotland objects on the grounds that it would revive speculation about Prestwick's future which would be damaging to current efforts to turn its fortunes round. Although an application to operate transatlantic flights out of Glasgow entails public debate about the future of Prestwick, we should not, in his view, voluntarily compound the difficulties. He also regards the Scottish Division as too small an issue to which to devote MMC time and questions whether there should be so prominent a Scottish component in the rolling programme.

4 The early privatisation of the BAA is a factor. Other aspects of the organisation are arguably either too sensitive or too demanding of senior management time to refer. In my view that is not true of an early reference of the Scottish Division. By enabling inefficiencies identified to be remedied in good time, it would serve to reassure prospective



investors and help, not hinder, privatisation.

5 In short, I am convinced that it is a worthwhile subject for investigation and that we should not be deflected from submitting it to efficiency audit and thereby meeting our full target for 1984.

6 I seek the Committee's agreement to an early announcement, including the BAA Scottish Division, in the terms annexed.

Department of Trade and Industry
November 1983



ANNEX

DRAFT ANNOUNCEMENT OF 1984 PROGRAMME OF NATIONALISED INDUSTRY
REFERENCES TO THE MMC

Arranged Question

To ask the Secretary of State for Trade and Industry if he will report progress on the rolling programme of references to the Monopolies and Mergers Commission of nationalised industries.

Answer

This year, reports have been published on Caledonian MacBrayne; the National Coal Board, the Yorkshire Electricity Board and the Civil Aviation Authority's air traffic control services.

The Commission is currently investigating the costs and efficiency of London Transport's bus maintenance operations; the South Wales Electricity Board and the letter post in Inner London, Cardiff, Glasgow and Belfast.

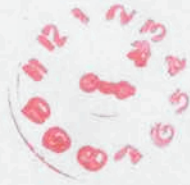
I have concluded that it would be inappropriate to proceed with the planned enquiry into British Shipbuilders' merchant shipbuilding activities. It would have come at a time in the current world recession when many yards are clearly working below capacity, and in such circumstances an investigation would not have been helpful.

During 1984, I intend to refer the Scottish Division of the British Airports Authority; the Yorkshire Water Authority; an area electricity board; the counter services of the Post Office; the bus operations of the Scottish Transport Group and an aspect of British Rail.

Terms of reference will be announced as each reference is made.

NAT. IND. Poling Pt 8.

22 DEC 1983





NBPM AT 8/12 CC NU

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1

8 December 1983

Dear Nigel,

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES AND
MERGERS COMMISSION

I have belatedly received Norman Tebbit's letter to you of
2 December, about the proposal to refer the Scottish Division
of the British Airports Authority.

I shall be glad to meet with colleagues and discuss this
issue, if that is deemed to be necessary. I attach a paper
which I would have been submitting to E(NI) and which sets
out my views in greater detail.

I fail to see why Norman attaches such importance to including
this proposed reference. If there are no better candidates
at the moment to replace the Scottish Division of BAA then
surely the rest of the programme could be announced and further
time taken to examine other possibilities.

I am copying this letter to the Prime Minister, and to the
Secretaries of State for Trade and Industry and Transport,
the Chief Secretary and to Robert Armstrong.

*Yours sincerely,
George*

CONFIDENTIAL

BRITISH AIRPORTS AUTHORITY - REFERENCE TO THE
MONOPOLIES AND MERGERS COMMISSION (MMC)

Memorandum by the Secretary of State for Scotland

1. It may assist our discussion if I set out briefly my reservations about subjecting the Scottish division of the British Airports Authority to a Section 11 reference at the present time.

2. I am in no doubt that these references are a most valuable weapon in our struggle to secure greater efficiency in the nationalised industries. The MMC Report on Caledonian MacBrayne has assisted me greatly in securing improvements in the running of the shipping activities of the Scottish Transport Group. I welcome the decision to include the Group's bus operations in the 1984 programme; I would like one of the Scottish Electricity Boards to be examined in 1985. I have sought to include these references in the programme because they offer real possibilities of significant efficiency gains and because they will generally assist my control of the nationalised industries for which I am responsible.

3. That, I suggest, is the basis on which all the candidates for referral to the MMC should be selected. If we commit ourselves slavishly to a set programme of references irrespective of need and without taking account of other considerations we run the risk of devaluing the Section 11 procedure. The proposed reference of the BAA is a case in point. It is the Authority's "turn" for a reference in 1984 but the need to allow senior management to devote their attention to preparation for privatisation argues against requiring them to deal with a reference at the present time. However, the desire to achieve a full programme of references and to include a BAA one has led to the proposition that the Scottish Division of the

Authority should be subjected to scrutiny. In my view, this is a misuse of the valuable MMC resource. The Scottish Division of the BAA has been selected not primarily because of concern about its efficiency but because a slot had to be filled.

4. While I accept there is probably room for improvement in aspects of many nationalised industries' activity it seems doubtful whether BAA's Scottish Division is a prime target. If there are spare resources available in the MMC for 1984, it is difficult to believe that more profitable work could not be found for them. Although the Scottish Airports are still short of the target we have set them of breaking even, their trading loss of £3.3m in 1982/83 was a significant improvement on the loss of £8.5m in 1979/80. As has been pointed out in earlier correspondence, the loss stems largely from causes outwith local management control. While it is difficult to compare performance at the Scottish Airports with the very different London and South-East Airports it is significant to note that while staff costs per terminal passenger at the South-East Airports increased by 11% between 1980/81 and 1982/83 the increase at the Scottish Airports over the same period was only 5%*. In short, it seems clear that BAA's Scottish Division are making determined efforts to improve efficiency and that an MMC reference at this time could distract them from that primary objective.

5. It would also detract from the efforts to promote Prestwick. The Scottish Division is currently engaged on a series of sales missions to North America to promote the use of the Airport. Given their limited resources an MMC reference would inevitably divert effort from this exercise. However much more significantly, to refer the Scottish Division while the promotion of Prestwick is still underway would be interpreted in Scotland as a deliberate attempt by Government to undermine the future of Prestwick and would certainly have the practical effect of starting yet again the speculation about the airport's future. As recently as March this year the then Secretary of State for Trade and I agreed, in responding to the report of the Scottish Select Committee on Prestwick, that frequent reviews of the lowlands airport policy could only prejudice the chances of making it work and pointed out that ill-founded suggestions that the policy was about to be changed had undoubtedly harmed Scotland's overall civil aviation interests during the recession. A section 11 reference now would inevitably leave

* Source BAA Annual Reports and Accounts 1980/81 and 1982/83

us open to the charge (which our political opponents would be quick to exploit) that despite our recent reaffirmations of commitment to keeping Prestwick and despite our support for the BAA led initiatives to develop traffic there we had already decided to close the Airport.

6. I am well aware that the CAA's decision on a route licensing application, which will be announced shortly, may in any case generate its own pressures for a review of the lowland airport policy. But that is no reason why Government should at its own hand stimulate such pressure, in contradiction of its own recent pronouncements. If CAA grant the licence and BAA appeal, the Secretary of State for Transport (in his appellate function) might be embarrassed by the concurrent progress of an MMC investigation, given the public interpretation that will be put on the motives for the reference.

7. My view is therefore that to include the Scottish Division of the BAA in the 1984 programme would cause political difficulty out of all proportion to the efficiency improvements it might yield and would certainly not be justified simply in order to achieve a full programme of six references in 1984.

8. I recommend that colleagues agree that the proposal to include the BAA's Scottish Division in the 1984 programme should be dropped and that unless an alternative presents itself which merits early examination we either settle for a programme of five new references in 1984 (which would in any case be an improvement on this year's performance), or seek in the course of next year to bring forward one of the references currently planned for 1985.

SCOTTISH OFFICE



2800000000



7