CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Norman Lamont MP
Financial Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 March '87

DN. pa now.

B DW

OK from your point of view? DW 24/3.

If there is an election on 11 or 18 June, we will know on about 11 or 18 May. So plenty of time to change plans. If there was an election on 18 June, the issue would have to be postponed. N.C-J 24.3

Dear Financial Secretary,

TIMING OF BAA PRIVATISATION AND EUROTUNNEL EQUITY 3

I have been reconsidering the timing of the BAA privatisation in the light of Eurotunnel's need to place Equity 3 before the summer.

Alistair Morton has convinced me that it is essential for Eurotunnel to stick to their declared aim of raising Equity 3 before the summer break. The clear message they are receiving from potential investors is that a postponement of the kind that was near-fatal for Equity 2 would destroy their chances of a successful issue. In any case, their present funds will be exhausted during August, and some form of interim financing would be necessary even if the full £750m share offering was postponed. The difficulty is that the date we have been holding for Eurotunnel's impact day - 21 July - is far too late for the French financial markets which effectively close for the summer on Bastille Day (14 July).

It has always been clear that Eurotunnel would not be able to offer shares to the public before the loan agreement (which is currently in preparation) has become unconditional. That could not be before the Treaty has been ratified, which in turn depends on Royal Assent to the Channel Tunnel Bill, which is expected during the second week of June.

I have concluded that the only possible solution would be to bring forward impact day for the BAA privatisation from 1 July to 17 June and to allow the Eurotunnel share offering to take its place. The successful privatisation of BAA could benefit Eurotunnel by helping to develop a positive attitude towards major transport investments. But if BAA were to follow Equity 3 there could be disbenefits for BAA as, on past experience, the Eurotunnel offer could prove difficult.

Bringing forward BAA's impact day to 17 June will not be without problems and risks. For instance, we shall have to shorten the institutional marketing campaign, compressing the presentations to institutions into a shorter period and reducing the number of presentations. We shall also have to shorten the advertising campaign, which is certainly not ideal in view of the low awareness of BAA and our targets for wide ownership of BAA shares. And the proximity of the BGas second instalment, on 9 June, will not be helpful, particularly for retail marketing of BAA. Other problems include the shorter timescale for appointing a suitable Chief Executive for BAA and the compression of the timescale for such matters as the preparation of the prospectus and of BAA's 1986/87 accounts, with attendant risks. I attach a copy of a letter from our advisers, County, elaborating these points. However, as you will see County still believe that the earlier flotation date should be achievable. Clearly we shall have to work hard to do what has to be done in a shorter time, but I too believe that it can be done, and that the success of our policy over the Channel Tunnel makes the change necessary.

I therefore propose that we should move the BAA impact day to 17 June, with lists closing on 26 June. I understand that this slot is currently available in the Bank of England's queue. Eurotunnel Equity 3 will then take the slot currently reserved for BAA and vacate the 21 July slot currently reserved for it. I should be grateful for your agreement.

One consequence of this change is that we shall need to increase the weighting of the BAA television adverts to compensate for the shortening of the campaign. In view of our wider share ownership aims for BAA, I do not consider that we can downweight the BAA television awareness advertising during the latter stages of the Rolls-Royce flotation advertising (as was previously proposed). Rolls-Royce is not seen as a wider share ownership share on anything like the same scale as BAA.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and to Sir Robert Armstrong.

Yours Sincerely,

J. Cunliffe

p.p. JOHN MOORE (approved by the Secretary of State and signed in his absence).