



10 DOWNING STREET

From the Private Secretary

Prime Minister

I would advise against you
proceeding chasing with individual
Ministers : it would cut across the
financial Secretary's sense of
responsibility.

Agree to invite the financial
Secretary to produce a position report?

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PRIME MINISTER

BRITISH AIRWAYS PRIVATISATION AND NEGOTIATIONS OVER THE UK/US
AIR SERVICES AGREEMENT (BERMUDA 2)

1 I shall not be able to attend the meeting of MISC 112 arranged for 11 March to discuss Nick Ridley's Memorandum (MISC 112 (86)1).

2 While I sympathise with Nick Ridley's difficulties, I am naturally sorry that he has found it necessary to reach the conclusions set out in his Memorandum. As far as prospectus disclosure is concerned, my officials have analysed carefully the arguments for and against the degree of disclosure currently proposed; and our general view would be that compliance with the terms set out in the draft prospectus passage enclosed with Nick Ridley's Memorandum would be entirely satisfactory. Assuming that a prospectus on those lines were issued, the privatisation of British Airways would be a welcome step towards distancing from Government a company with a history of anti-trust difficulties. As colleagues know only too well, these difficulties have spread into the wider field of our relations with the United States; and British Airways' close links with Government may have deprived the company of some of the freedom which, as a

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private entity, it might have enjoyed in settling these difficulties. For all these reasons, early privatisation would have been welcome.

3 I accept, however, that Nick Ridley must be the best judge of the different issues involved. This applies equally to the Government's objectives for the regulation of capacity on the North Atlantic routes. As I understand Nick Ridley's arguments, the need for freedom in negotiating a satisfactory regime for North Atlantic capacity - which would secure the future of such airlines as BCal and Virgin, as well as British Airways - could well outweigh the more immediate objective of privatising British Airways. I would not necessarily quarrel with that view. But I am somewhat concerned that our assessment of a satisfactory regime for North Atlantic capacity could prove at odds with that of British Airways. The reasons for this would be understandable: we need to have regard to the lesser UK airlines' requirements, as well as those of British Airways as our leading airline. But, given the critical bearing of the negotiations on British Airways own approach towards its flotation, I hope that a way can be found of discussing the issues candidly with the company, rather than considering them in the current highly confidential forum, and handing

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down a decision to defer privatisation which could result in a damaging misunderstanding with the company, or even public controversy.

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I am copying this letter to the other members of MISC 112. the Lord Chancellor and to Sir Robert Armstrong.

PC

PAUL CHANNON

10 March 1986

Department of Trade & Industry

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