

SUBJECT cc  
MASTER

File



cc: B1.  
B9.

10 DOWNING STREET

From the Private Secretary

17 March 1986

BRITISH AIRWAYS

The Prime Minister this afternoon saw Lord King to discuss the privatisation of British Airways.

Lord King explained that the news stories over the weekend about a conflict between Government and British Airways management were "manufactured news". He had not heard of the stories until Friday last week. Of course the management had held discussions about the possibility of a management buy out as of other forms of privatisation. And of course he from time to time had disagreements with Mr. Ridley, but then he did not always agree with his own wife either. He hoped that Mr. Ridley and the Government would make every possible effort to put across their determination to privatise British Airways as soon as possible. There would be problems in maintaining morale in the airline and also in keeping the management together.

The Prime Minister said that the decision not to set a new timetable for privatising the airline was in part in order to weaken the determination of present and possibly also prospective mitigants. Any prospectus, whether for a management buy out or a flotation, had to be prepared with scrupulous accuracy and it was important to settle the discussions about Bermuda 2 and to resolve the uncertainties about the application of US anti trust law before the airline could be privatised.

The Prime Minister thanked Lord King for his letter of today (copy attached). Lord King and the Prime Minister also agreed that the line to take, attached, would be followed with the Press after the meeting.

(DAVID NORGROVE)

Richard Allan, Esq.,  
Department of Transport.

cc Transport  
cc BL

**BRITISH AIRWAYS**

British Airways Plc  
Cleveland House  
19 St James's Square  
London SW1Y 4LN

Telephone: 01-930 9766

Chairman:  
Lord King of Wartnaby

The Rt. Hon. Margaret Thatcher, MP,  
The Prime Minister,  
10 Downing Street,  
London, S.W.1.

17th March, 1986

*Dear Prime Minister*

In view of the media coverage this weekend which gave rise to a number of questions, I want to reassure you that I and my Board are committed to your and our common objective of a successful privatisation of British Airways as soon as possible.

We would prefer this to be accomplished by means of a public flotation and will pursue such intention with much vigour while continuing to work closely with Nicholas Ridley and his Department. Furthermore, we support HMG's efforts to achieve a successful outcome in the current negotiations with the United States Government over the capacity annex to the Bermuda II agreement.

I am most appreciative of the invitation you extended to me through Nicholas last week and I look forward to our meeting this afternoon.

*James*  
*Low*



British Airways Plc,  
Registered office:  
Speedbird House,  
Heathrow Airport (London)  
Hounslow TW6 2JA,  
Registered in England No. 1777777.

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2  
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BRITISH AIRWAYS



Yes  
excellent  
mb

10 DOWNING STREET

Prime Minister

Lord King would like to send you this letter if you think it would be helpful. Mr Ridley thinks it would be helpful, partly because it would help him at Quentin's this afternoon.

Agree?

(Transport have at my request prepared a line to take with the press after your meeting with Lord King this afternoon. This is now being agreed with Lord King.)

DSW  
17/3

D R A F T

cc B9

THE RT HON MRS MARGARET THATCHER MP, PRIME MINISTER

In view of the media coverage this weekend which gave rise to a number of questions, I want to reassure you that I and my Board are committed to your and our common objective of a successful privatisation of British Airways as soon as possible.

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LORD KING OF WARTNABY



ce BL



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

David Norgrove Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

17 March 1986

*Dear David,*

PRIME MINISTER'S MEETING WITH LORD KING, 17 MARCH 1986

/ We spoke. I now enclose a copy of the line which we suggest No 10, and Lord King, should take with the Press after Lord King has seen the Prime Minister this afternoon - subject, of course, to what is said at the meeting! This has been discussed with my Secretary of State and agreed between Jean Caines here and Bernard Ingham and, subsequently, with Colin Marshall, Chief Executive of British Airways.

David Burnside (Head of Public Relations at BA) and Jean Caines will be in touch with Bernard Ingham after the meeting.

I am copying this letter and enclosure to Bernard Ingham.

*Yours,  
Richard.*

R A ALLAN  
Private Secretary

PM'S MEETING WITH LORD KING, BA 17 MARCH 1986

The Prime Minister met Lord King this afternoon to discuss the Government's recently announced decision not to set a timetable yet for the privatisation of British Airways. The invitation had been issued by the Prime Minister last week at the time of the decision.

LINE TO TAKE

The Government and British Airways have the common objective of privatising the airline as soon as possible. It is a matter of great regret to both that the uncertainties arising from the current state of the Bermuda 2 negotiations and the application of US anti-trust law to international aviation have led the Government to conclude that a timetable cannot be set yet. The Board of BA respect the Government's decision and hope that the negotiations which are vital to the continuing success of BA can be brought to a speedy and successful conclusion.

The Government and the Board agree that the preferred method of privatisation is a public offer for sale. This would enable the market to be tested properly, and assist the Government's objective of widening share ownership.

Lord King confirmed that the Board had not put proposals for a management buy-out to the Government. The company look forward to a successful public offer for sale as soon as the Government judge that privatisation can proceed.



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State for Transport  
 Department of Transport  
 2 Marsham Street  
 London  
 SW1P 3EB

NBRN

17<sup>th</sup>  
 March 1986

*Dear Nicholas,*

BAA PAY

Thank you for your letter of 12<sup>th</sup> March.

In the circumstances, I think we must regard the outcome of these negotiations as satisfactory. It is rather unfortunate though that the Press have concentrated on the maximum increase in basic rates and not the effect on average earnings.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

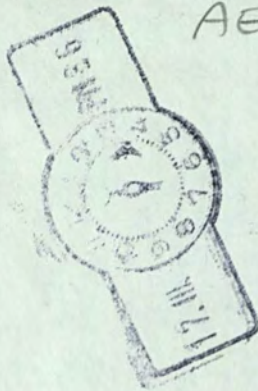
*Yours,*  
*John*

JOHN MacGREGOR

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AEROSPACE, Future of RA

PKS



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CC BG  
BU



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Mark Addison Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

13 March 1986

DN.

Dear Mark,

I think you need to decide what  
the S/P should be present. He is willing  
to be if you want him. MBT  
12/3

PRIME MINISTER'S MEETING WITH LORD KING,  
17 MARCH

The Prime Minister is meeting Lord King, the Chairman of British Airways, at 3.30 pm on Monday, 17 March. I enclose a short brief for the meeting which my Secretary of State has seen and approved. The Prime Minister is, of course, familiar with the background from this week's MISC 112 discussion.

Yours,  
Richard

R A ALLAN  
Private Secretary

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BRIEF FOR MEETING BETWEEN PRIME MINISTER AND LORD KING

LINE TO TAKE

Reasons For Delay

- Greatly regret that still cannot set a timetable
- But vital to be able to take tough line with the Americans if necessary to protect interests of British civil aviation industry as a whole
- Also worried about propriety of proceeding. Prospectus satisfied HMG's legal obligations, but extent of disclosure created unacceptable risks

Timetable

- Hope privatisation still possible soon. But cannot say when because simply would not be believed, and anyway depends on progress on Bermuda 2 and anti-trust
- Will review possibility of agreeing on a timetable in the summer in light of progress on these matters
- Must be confident that any target date really is achievable. Cannot afford to build up false expectations again

Alternatives - Management Buy Out

- Our objective remains to sell all the company by means of a public offer
- Alternative of a management buy out would not on the face of it meet our objectives or yours because:

would not achieve wider share ownership

some means needed to test the market to be sure that Government receiving full value by selling the business in this way

sale document to same standards as prospectus would be needed, especially if large numbers of employees participate. So disclosure problem would remain

sale proceeds could be affected by current uncertainties over Bermuda 2

- Nevertheless would consider this option if Board can see way of overcoming these difficulties
- But most important not to jeopardise prospects for eventual successful public offering by approaches to institutions to finance different method of sale
- Nicholas Ridley will be writing shortly about method of approach if BA want to pursue this further

/NB Do not mention alternatives being considered within Government to relieve BA of past anti-trust liabilities. If they thought this were a possibility there would be no prospect of persuading them to take these liabilities to the private sector/

Capital Investment

- Public expenditure controls must apply while BA remains in public sector. Necessary therefore when BA's budget is complete to set EFL for 1986-87 and capital expenditure limit for 1987-88
- Will need to look at long term fleet plan in the light of that, and consider financing implications of decisions to be taken this year, both for public expenditure and for the balance sheet of BA when privatised
- Government need to see financial case for six 747's well before January 1987 when decision needed on whether to place orders. There should be no problem provided case is robust and financing can be accommodated within agreed expenditure limits.

