

WJG



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Prime Minister 2

David Norgrove Esq  
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DLW

22 December 1986

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Dear David

**ROWE & PITMAN REPORT ON BRITISH AIRWAYS**

... The Prime Minister recently spoke to the Chancellor about the enclosed press cuttings. I attach a note by Jeremy Colman, which sets out the background. The key point is that the Rowe & Pitman report was killed by Slaughter & May on legal grounds, and not by HMG on policy grounds.

Yours ever,

Tony

**A W KUCZYS**  
Private Secretary



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FROM: J G COLMAN  
17 December 1986

CHANCELLOR

Rowe & Pitman Report on BRITISH AIRWAYS

You asked for a note on cuttings from the Sunday Express and the Standard.

2. Both reports are factually accurate but the interpretation placed on the facts by the Sunday Express is quite incorrect. The Standard report is entirely correct as to the reason why the Rowe & Pitman report could not be published.
3. The sequence of events was as follows. When the decision was taken in September to privatise BA early in 1987, Hill Samuel drew up a timetable which envisaged the publication of research reports by three of the four brokers associated with the offer, Wood Mackenzie, Phillips & Drew, and Rowe & Pitman. For obvious reasons the timetable spaced out the publication dates. It put Rowe & Pitman last, just after the publication of BA's interim results.
4. At the time this was done, Slaughter and May expressed doubts about it; they thought that there was a case for verifying to prospectus standards a report by a broker in "the charmed circle" if it appeared in the run up to the offer for sale.
5. It is a matter of judgment how close to the date of a sale a report can be published without verification, and Slaughter and May have a reputation for extreme caution. In the event, it seemed that they did not press the point, and the first two reports were published as planned (not without some grumbling from Slaughter & May).



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6. But when Rowe & Pitman circulated their report in draft, Slaughter & May insisted that it could only be published before the sale if all the material in it had been verified to the standard of the prospectus. Given the length and weight of the report this was clearly impossible in the time. Rowe & Pitman accepted that the report would have to appear after the sale.

7. I think that it is deplorable that a senior analyst in one of the brokers to the offer should talk to the Press about these events, however strongly he personally may have been disappointed by the outcome. After he did so, it is not surprising that a newspaper should put a conspiracy theory interpretation on what they were told. The remark attributed to Hill Samuel's spokesman did not help. The Standard report is helpful in setting the story straight.

J. G. C.

J G COLMAN



THE STANDARD

## BA REPORT 'SLAUGHTERED'

SLAUGHTER & May, solicitor to the Government on the sale of British Airways, has advised against the publication of a major report on the airline prepared by its lead brokers Rowe & Pitman, now part of Warburg Securities.

A weekend report which implied that the ban was a result of the opinion expressed in the report was dismissed by the firm as inaccurate.

Rather it appears that the data in the report would have had to be checked to prospectus standards, due to the nearness of the flotation and the connections of the firm with the company. Given that the report took two years to prepare this would have been absurdly costly, and probably impossible in the time available.

Slaughter's advice can be

seen as a further consequence of the internationalisation of markets. It is unlikely that they would have been as strict had the issue been purely domestic.

But the possibility that a large slice of the issue could be sold in America, and the American love of litigation, clearly prompted the solicitors to err on the side of caution.

SUNDAY EXPRESS

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# Eye-of-float rumpus as BA report is grounded

AN astonishing City row has erupted over the banning of an in-depth study of British Airways compiled by Rowe & Pitman, blue-blooded brokers to the Queen.

The study, running to 200 pages and by far the most extensive ever carried out on BA, was to have been circulated to City institutions two weeks ago—shortly after the announcement of the airline's mid-year results which revealed a drop in profits from £201m to £141m.

But suddenly the Government's solicitors Slaughter & May stepped in and told Rowe & Pitman, one of the brokers to next month's share flotation of BA, not to publish the report. Studies of BA by the other two brokers involved in the share offer, Phillips & Drew and Wood Mackenzie, were allowed to be published.

David Freud, the Rowe & Pitman analyst who has spent the last two years on the report, told Iain McKelvie: "I'm very bitter about it—very jaundiced. It was supposed to be the *piece de resistance* on BA. I visited most of BA's overseas locations and interviewed the managers. We have a computer model on all BA's routes which no one else has. My research would have helped would-be investors thoroughly to understand the shares."

Freud's analysis of BA differs from Wood Mackenzie and P & D's in a number of ways.

● His forecast of the profits BA will make in its first year after flotation is some way below theirs—in fact, many millions below Wood Mack's £230m.

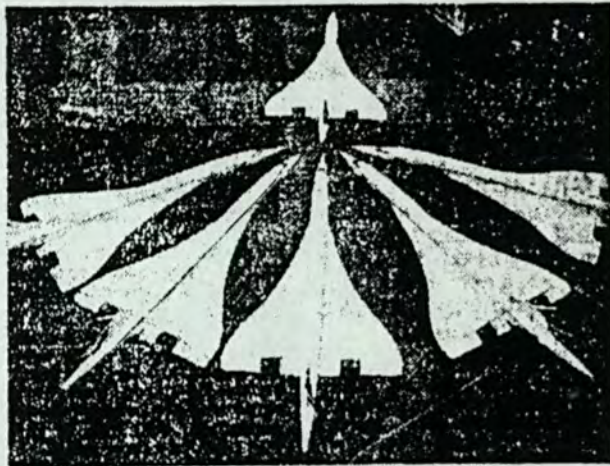
‘I'm feeling very bitter about it—very jaundiced’

● It has pointed to heavy pressure likely on airline fares in Europe next year, which could dent profits.

● It has spotlighted the economics and politics of each of BA's routes including the uncertainties over certain very profitable areas like South Africa. Another high risk it mentions are those services which over-fly the USSR.

Freud says the official reason for the Government gag on his work was that it is "too close to the prospectus and every statement would have to be verified to prospectus standard."

"It's strange they let the other reports go," he says.



BA's Concorde . . . will the flotation be so smooth?

The Government is hoping to float BA for anything up to £1bn—but some experts in the City suggest they will be lucky to get £800m because of the uncertainties over the airline's trading prospects.

Rowe & Pitman and Freud are still optimistic about the flotation and expect it to be a success. The only difference between all three brokers is: How much will it fetch?

So why did the Government really block the R & P study?

The answer is not forthcoming from Hill Samuel, the merchant bankers acting for the Government and, coincidentally, the parent company of Wood Mackenzie. "It was not gagged. It was not banned. It was the view of all concerned that it would be better if it did not come out," said a spokesman.

At Slaughter & May, they said: "We can't say anything, naturally. We can't stop publication—we are simply advisers to the government and we advise in confidence."

At British Airways, where top people are secretly livid that two years close co-operation with Freud should go to waste, they say: "It's nothing to do with us."

What if Rowe & Pitman had gone ahead and published? "Perhaps, it would have hal-

ted the whole issue," says Freud.

There are other factors, too, which could cloud the coming razzmatazz over BA's stock market lift-off. It has emerged that three separate but extremely rancorous disputes are going on between the Government and Spain, Japan and Canada about reciprocal flight arrangements between the respective countries.

With BA's Japan and Far East services being so important to the airline, any lingering argument or action by the Japanese could prove extremely damaging.

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