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NEW COVER

CONFIDENTIAL FILINGS

UK - Hong Kong Air Services - the licencing appeal.

AEROSPACE

The demise of Lakes Airways  
Hong Kong / Australia Air Services Agreement

JUNE 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>29.7.83</del>							
<del>to 9.84</del>							
9.10.85							
<p>PREM 19/14/14</p>							

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Foreign and Commonwealth Office

London SW1A 2AH

9 October 1985

*Prime Minister  
to note, in case Mr.  
Hawke raises this  
CND.*

*Dear Charles,*

Hong Kong/Australia Air Services Agreement

You will wish to be aware of a point which might possibly be raised with the Prime Minister by the Australian Prime Minister at Nassau.

The Civil Aviation Annex attached to the Sino-British Joint Declaration provides for the Government of the People's Republic of China after 1997 to delegate to the SAR Government the right to renew or amend existing and negotiate new Air Service Agreements involving services to and from Hong Kong. As part of the preparations for 1997 we need to unscramble Air Service Agreements (ASAs) between the UK and other countries which cover services between those countries and Hong Kong in such a way that services to and from Hong Kong appear in new agreements separate from those involving services to and from the UK. We have started talks with the Australians to this end. Australia was chosen as the first candidate for these negotiations because of the helpful support which they have given at a political level to the Joint Declaration and because the ASA in question is a relatively simple one to "unscramble".

A political difficulty has however arisen in discussions held in Canberra last week. The Australians have indicated that they are nervous about signing an agreement with Hong Kong unless they can be certain that the Chinese have no objection to this. They have suggested that we or they should approach the Chinese to check this point.

This suggestion poses a serious problem for us. Formally speaking, the ASA is for an indefinite period. If it continues until 1997 it will need to be renewed or renegotiated by the SAR government, although the Joint Declaration states that all such ASAs may in principle be renewed. Negotiation at this stage therefore lies entirely within our competence. It would be unhelpful to have the Australians imply otherwise by approaching the Chinese to ask whether they are content that the agreement be signed. It could also be dangerous, because the Australians are not totally familiar with the detail of the Joint Declaration and misunderstandings with the Chinese could easily arise.

/From

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From our point of view, we are most reluctant to set a precedent by seeking Chinese agreement for these negotiations, or even by specifically informing the Chinese of them, thus implying a need to do so in all future such negotiations. This would also allow the Chinese airline CAAC, a highly predatory organisation, to seek a driot de regard over such negotiations.

We have sought to reassure the Australians by explaining to them that the whole idea of separate Air Service Agreements between Hong Kong and third countries was raised with the Chinese during the negotiation of the Joint Declaration, that the text of that Declaration, which allows existing ASAs to be renewed by the SAR Government, was predicated on the intention we had expressed to the Chinese of negotiating separate ASAs between Hong Kong and third countries, and that the Chinese have raised no objection either then or since to the concept.

The Australians are now considering what we have told them. Canberra have however warned us that because of the interest shown by Mr Hawke in the development of the Australian/China relationship, he might conceivably raise the subject with the Prime Minister at Nassau.

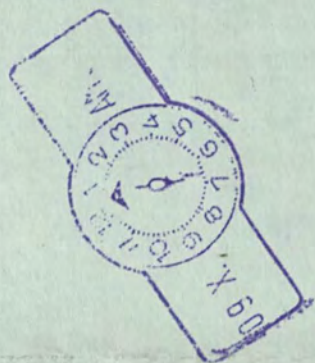
If he does, we suggest that the Prime Minister might explain that we do not wish to reopen with the Chinese a question which we regard as having been successfully dealt with during the negotiation of the Joint Declaration itself. The Chinese have had every opportunity to object to the concept of separate ASAs signed by Hong Kong, and have not done so. We also need to avoid any impression that during the period for which we are responsible for the administration of Hong Kong we need to seek Chinese authority to exercise our responsibilities. We hope that the Australians will accept our assurances on this.

*Te* *ew*  
*Pete Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
No 10 Downing Street

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cepc

NRRM  
COD 10/9.FCS/84/247LORD PRESIDENT OF THE COUNCILHong Kong: Air Services

1. Thank you for copying to me your letter of 9 August to Nicholas Ridley about the future control of air services to and from Hong Kong. You suggested that the United Kingdom legislative changes which will be required as a result of the recently initialled agreement between the UK and Hong Kong Governments, on this matter, might be tackled in the context of legislation on Hong Kong generally, when our negotiations with the Chinese Government on Hong Kong's future have been concluded.

2. We have recently discussed the general question of legislation on Hong Kong's future after 1997. I am clear that this would not be the right context in which to deal with the recent UK-Hong Kong agreement on civil aviation, which covers only the period up to 1997.

3. You say that Nicholas Ridley's proposal to include legislation on Hong Kong in the forthcoming Bill to amend the Civil Aviation Act might result in a widening of the debate on the Bill to include Hong Kong's future. My own view is that any such risk could be contained: Parliament is aware that the autumn will bring a full opportunity to debate the future of Hong Kong as a separate issue.

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4. I am copying this letter to the Prime Minister, Nicholas Ridley, Nigel Lawson, John Biffen and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
10 September 1984

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Hong Kong PT16  
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PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

9 August 1984

*NBM  
OK*

*Dear Nick*

**HONG KONG AIR SERVICES**

*see Pt. 15*

The Lord Privy Seal has shown me a copy of your letter of 24 July to the Foreign Secretary about future control of air services to and from Hong Kong. As he is away at the moment I am replying on behalf of the Business Managers generally.

You propose that the necessary amendments to the Civil Aviation Act should be made in next Session's short Civil Aviation Bill. I agree that this idea has some attractions as the subject matter would be fairly closely related, but there seems a risk that the debate on that short, essential Bill would then extend to the privatisation of British Airways or the future of Hong Kong or both.

I think it would be preferable to make these changes in the context either of general Hong Kong legislation or of the larger Civil Aviation Bill, on airport privatisation, for which you will no doubt be bidding again. Which course should be taken rather depends on how and when we are going to tackle legislation on Hong Kong. It would be helpful if Geoffrey Howe could let us know his present thoughts on this.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, John Biffen, and Sir Robert Armstrong.

The Rt Hon Nicholas Ridley MP

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HONG KONG : Future Pt 16

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DTP Serial no: 1335

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
LONDON SW1

*Pl. wait  
FCS reply.*  
24<sup>th</sup> July 1984

*Dear Geoffrey*

Our arrangements with Hong Kong concerning the licensing of air services require changing for a number of reasons. We need to provide the legal basis for autonomy for Hong Kong's air services arrangements in the period before 1997 like that which we are seeking for the post-1997 period. We need to remove the anomalies inherent in the present arrangements which can lead to a conflict of decisions between the UK and Hong Kong like that which prevented us from putting Laker on the route in 1980. And we need to provide an equitable solution to deal with the resentment felt in Hong Kong at the exemption which BA and its predecessor corporations have enjoyed from the need to obtain licences from the Hong Kong Air Transport Licensing Authority (HKATLA). This resentment will of course be even more keenly felt when BA becomes a private sector company early next year, and if there is to be any change it needs to be worked out in time for the new regime that will govern BA's Hong Kong services to be reflected in the prospectus.

I attach a note prepared by my officials which explores the various options, concluding (option C in paragraph 7) that the current licensing arrangements should be replaced as

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part of a package of measures providing the conditions for Hong Kong to exercise substantially enhanced autonomy in relation to civil aviation in return for a memorandum of understanding which would provide for more or less the equivalent of existing traffic rights between the UK and Hong Kong for the UK and Hong Kong based airlines.

I believe this is the right course to follow, both in relation to the Chinese, who have used our own control of Hong Kong civil aviation as an argument for retaining control in their own hands after 1997 and in relation to the privatisation of BA. It would put BA and BCal on the same judicial basis in Hong Kong and place Hong Kong based airlines on a comparable judicial basis in the UK, giving each of them as much security up to 1997 as they have on any other route.

We shall need to consider the final terms of any settlement rather carefully both in the context of BA's privatisation and in relation to the outcome of the negotiations with the Chinese about the future of Hong Kong. It may be necessary to tell the Chinese during the negotiations that we are taking steps to enhance the autonomy of Hong Kong's licensing arrangements (since I am clear that this is worthwhile anyway) but I think we should commit ourselves to the progressive establishment of separate air services arrangements between Hong Kong and third countries only to the extent that it may become clear that this will be a useful transition between the arrangements which exist now and those which we may be able to foresee for the future once the negotiations with the Chinese have reached a conclusion at the end of September.

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You will notice that unfortunately there are some minor legislative implications (Annex D of the paper). We already have approval for legislation next session to amend the Civil Aviation Act so as to make provision for the Air Traffic Movements limit. It might be possible if colleagues agree, which they may well not, for the minor amendments to the Civil Aviation Act required to be included in the same bill. But in any case use could be made for an interim period pending legislation of the power to direct the Civil Aviation Authority either to exempt flights by Hong Kong based airlines from its licensing requirements or to issue licences which such airlines may apply for (provided in either case that the appropriate Hong Kong licence had been issued).

If you agree that we should proceed on this basis I will arrange for my officials to put the proposals set out in Option c of the attached paper to the Secretary for Economic Services in Hong Kong, and to make further recommendations to us in the light of the views expressed by the Hong Kong authorities.

I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer, and to the Lord Privy Seal.

*Yours*

*Nicholas*

NICHOLAS RIDLEY

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HONG KONG LICENSING AND BA PRIVATISATION

1. Under the Hong Kong Air Transport (Licensing of Air Services) Regulations British airlines, other than British Airways but including airlines based in Hong Kong, can only operate scheduled services to and from Hong Kong in accordance with the provisions of a licence granted by the Hong Kong Air Transport Licensing Authority. This requirement is in addition to that under the Civil Aviation Act that British airlines based in the UK require a licence from the Civil Aviation Authority to operate services anywhere and British airlines based outside the UK require a CAA licence to operate services which touch the UK.
2. The Hong Kong ATLA Regulations do not apply to British Airways which inherited this exemption in 1973 from BOAC and BEA who when the exemption was first introduced were the only UK based airlines likely to operate services to Hong Kong. Alone amongst British airlines therefore BA is free to operate scheduled services to and from Hong Kong (including its services between Hong Kong and Johannesburg) on the strength of its CAA licence alone.
3. The combined effect of the Regulations and the Act is that, apart from BA, British airlines (whether based in the UK or Hong Kong) wishing to operate scheduled services between the UK and Hong Kong require licences from both the CAA and the Hong Kong ATLA. In order to operate scheduled services to foreign countries, Hong Kong based airlines require a licence from the Hong Kong based airlines require a licence from the Hong Kong ATLA and authority from the foreign government concerned just as UK based airlines require a CAA licence and authority from the foreign government concerned in order to operate scheduled services to foreign countries. Foreign airlines are of course licensed by their own Governments and require authority from the DTp in order to operate scheduled services to UK territory whether to Hong Kong or to the UK proper.
4. In the negotiations with China concerning the future of Hong Kong we are seeking the maximum autonomy in civil aviation matters after 1997 for the proposed Hong Kong Special Administrative Region

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of China. We believe this to be in the long term interests of British civil aviation as well as those of Hong Kong. On the assumption that acceptable arrangements to this effect can be agreed, we would envisage ourselves moving in the interim period before 1997 to a delegation of authority to Hong Kong in civil aviation matters so as to smooth the transition as 1997 approaches. This would imply the progressive general separation of Hong Kong and UK civil aviation regimes and in due course the delegation to Hong Kong of responsibility for negotiation of traffic rights affecting the territory while it remains British. Whilst such devolution would not commence immediately and would have to be conditional on the prospects for an autonomous Hong Kong civil aviation regime after 1997 remaining reasonably good, we do need to provide the basis for it in the near future by making new separate licensing arrangements.

5. There are other reasons for revising the Hong Kong/UK licensing arrangements:-

a. BA enjoys a privileged position viz a viz other UK based airlines such as BCAL and viz a viz the Hong Kong based airline CPA and it would be difficult to justify continuing this after privatisation.

b. Conflicting decisions can be produced by the CAA and ATLA licensing procedures. These cannot be resolved either by UK decision (which would be politically inappropriate today) or by negotiation between ourselves and the Hong Kong Government because they have no power to vary the decisions of the ATLA. (This proved to be a matter of some importance when the then Secretary of State for Trade allowed an appeal by Laker against CAA's rejection of its application for a licence to serve Hong Kong but the Hong Kong ATLA stood by its rejection of the proposed service.)

c. The Hong Kong ATLA as at present constituted inevitably pays more regard in practice to the interests of Hong Kong than to the interests of UK based airlines. This arises not from discrimination against UK based airlines in the regulations

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as drafted, but rather from the nature of the ATLA which is a judge and jury of Hong Kong citizens who are naturally likely to be partial to Hong Kong as against the UK, and who lack the economic experience, professional staff and objective approach of the CAA.

The anomalies arising from BA's exemption from ATLA jurisdiction (though not the other anomalies) have for some time been a matter of concern to the Hong Kong Government and to CPA who wish to see the exemption terminated. CPA in particular sees its termination as a means of securing themselves traffic rights on the profitable Hong Kong/Johannesburg route in place of BA.

6. We have accepted the need to find an equitable solution to the problem and now need to do so this summer since the prospectus which will form the basis of the privatisation of BA will need to make clear the future status of BA's rights to and from Hong Kong and therefore the nature of any new licensing arrangements. Any such arrangements need to reconcile the diverse requirements of meeting the Hong Kong Government's wish to remove BA's exemption and providing a basis for the long term development of autonomy for Hong Kong in civil aviation matters at the same time as safeguarding the interests of UK based airlines. For whilst in principle there is no good reason for BA's privileged position to continue, privatisation or no privatisation, it is certainly not in our interests to do anything which will reduce, or create uncertainty about, an important part of BA's traffic rights.

7. We have considered the following possibilities:-

a. Abolition of the Hong Kong ATLA and the automatic issue of licences by the Hong Kong Government to British (including Hong Kong based) airlines to operate scheduled services to and from Hong Kong. This local deregulation is attractive in that it would remove the anomaly of BA's privileged position while leaving it (and BCAL and CPA) free to develop their Hong Kong services as they choose though subject to CAA control where applicable. The Hong Kong Government has however made

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it very clear that this course would be unacceptable to them; it would leave control of UK/Hong Kong services with the UK because of the continuing need for all British airlines on the route to obtain a CAA licence and because in respect of services between Hong Kong and foreign points by Hong Kong or the UK based airline, it would effectively replace the ATLA's control with the UK aeronautical authorities' power of decision as to which British airlines would be designated under Air Service Agreements for such services. Such paternalism would not be consistent with the aim set out in paragraph 4 above that Hong Kong should move towards greater autonomy in civil aviation matters in the period before 1997, and it would lay Hong Kong aviation wide open to takeover by Chinese aviation thereafter.

b. Eliminating the BA exemption and providing for harmonization of conflicting decisions by the CAA and the ATLA. At a minimum this would require either an appeals procedure from ATLA decisions to the Secretary of State for Transport or a procedure for negotiation between the two jurisdictions in case of conflict together with a power of direction over the ATLA. Such an arrangement would however place a lot of strain on such procedures to the extent of undermining the licensing procedures themselves. It would involve British airlines being at least partly dependent on the ATLA for traffic rights between foreign countries and Hong Kong and given the limited sympathies of any Hong Kong licensing authority for UK based interests this would be unsatisfactory both to BA who have most at stake by way of Hong Kong traffic rights and in the longer term to BCAL and any other UK based airlines which may wish to serve Hong Kong. Even if all traffic rights on all sectors between the UK and Hong Kong were exempted from ATLA jurisdiction and subject to CAA licensing only (which is most unlikely to be acceptable to the Hong Kong Government) BA's rights beyond Hong Kong and its valuable Hong Kong/Johannesburg service would be in jeopardy. In practice, therefore, this option would involve us in an attempt to negotiate qualifications and interim provisions in order to protect BA's interests in the short term and the result is likely to be unsatisfactory both in the short term and the long term.

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c. Licensing confined to home based carriers in the UK and in Hong Kong respectively with each treating the other's airlines as if they were foreign. The UK CAA would license airlines based in the UK and the Hong Kong ATLA would license airlines based in Hong Kong, but neither would license the airlines of the other. For services to the UK Hong Kong based airlines would, like foreign airlines, require DTP operating permits rather than CAA licences as at present, and for services to Hong Kong UK based airlines and foreign airlines would in future require operating permits issued by the Hong Kong Civil Aviation Department.

d. The status quo. If we cannot agree on anything better we shall no doubt have to conserve the status quo. But the current anomalies are difficult to live with and in view of previous undertakings to propose an equitable solution, this should only be a fall back position if the arrangements at c. are not acceptable to the Hong Kong Government.

8. The arrangement in paragraph 7(c) would need to co-exist with an agreement between the UK and Hong Kong Governments, and a Memorandum of Understanding between the UK Department of Transport and the Hong Kong Civil Aviation Department, which would provide, firstly, for the Hong Kong Civil Aviation Department to issue permits to foreign airlines in accordance with arrangements negotiated with the foreign Governments concerned by DTP (until we delegated responsibility for such negotiations to the Hong Kong Civil Aviation Department) and, secondly, for permits to be issued by the UK DTP and the Hong Kong Civil Aviation Department to Hong Kong and UK based airlines respectively in accordance with a Memorandum of Understanding between DTP and the Hong Kong Civil Aviation Department. In order to safeguard the interests of UK based airlines and in particular to meet the requirements of BA's privatisation prospectus, this Memorandum would have, as a condition of the advantages for Hong Kong, to provide for more or less the equivalent of UK airlines' existing traffic rights until otherwise agreed through negotiation, although we might be prepared to see the theoretically unlimited traffic rights which BA currently enjoys beyond Hong Kong but does not use circumscribed in recognition of the reality that these rights could even now in practice only be enjoyed in the face of the strongest objections from the Hong

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Kong Government. There would be very little scope for real negotiation with the Hong Kong Government on the balance of such an understanding which would in effect be the quid pro quo necessary to safeguard UK based airlines rights for the institution of the new arrangements, but renegotiation at some time in the future would clearly have to take place in the light of the development of UK and Hong Kong based airlines operating requirements. A note of the main features of such arrangements and the minor legislative implications for the amendment of the Civil Aviation Act, the Air Navigation Order and the enactment of new Hong Kong legislation is attached. (The changes in the UK legislation would make it possible to establish comparable arrangements for other dependent territories if the Secretary of State so decided).

9. It would be necessary for the time being to preserve the position under which DTP acts in negotiations with foreign Governments as the UK aeronautical authorities in respect of services to and from Hong Kong. Provided that satisfactory arrangements concerning an autonomous post 1997 Hong Kong civil aviation regime can be negotiated with the Chinese, it would be our intention to disentangle UK and Hong Kong civil aviation arrangements with foreign countries and to delegate authority to the Hong Kong Civil Aviation Department as the aeronautical authorities for services between Hong Kong and a progressive number of countries over the years before 1997 as the UK and Hong Kong strands of our aviation arrangements were unravelled. Because of the complex inter-relations between UK and Hong Kong interests in our arrangements with a number of foreign countries, this process would however inevitably be difficult and time consuming, and until we have a better picture of the likely post-1997 position we would not wish to become irrevocably committed to it with the Hong Kong Government.

10 This note has been discussed with officials in CAP Directorate and in the FCO, who are in agreement with it. We should be grateful for approval to proceed on the basis outlined in paragraphs 7(c), 8 and 9, in discussions with the Hong Kong Government, and to make the necessary arrangements for subsequent legislative changes on the lines set out in Annex C.

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## LICENSING ARRANGEMENTS

1. Airlines having their principal place of business in Hong Kong would require a licence from the Hong Kong ATLA in order to operate scheduled services to and from Hong Kong (but not a CAA licence which they require at present for services touching the UK).
2. British airlines not having their principal place of business in Hong Kong would require a licence from the CAA in order to operate services including those to and from Hong Kong (but not an ATLA licence which, BA excepted, they require at present for scheduled services touching Hong Kong).
3. The Hong Kong Civil Aviation Department would issue operating permits for services touching Hong Kong to airlines not having their principal place of business in Hong Kong (whether British or foreign airlines) in accordance with understandings between the UK DTp and the Hong Kong Civil Aviation Department. (The UK DTp would cease to be responsible for issuing operating permits to foreign airlines for services touching Hong Kong).
4. The UK Department of Transport would issue operating permits for services touching the UK to airlines having their principal place of business in Hong Kong (as to foreign airlines) in accordance with understandings between the UK Department of Transport and the Hong Kong Civil Aviation Department.

## AGREEMENT BETWEEN HONG KONG AND UK GOVERNMENTS

1. For the purposes of Air Service Agreements and related arrangements with foreign countries, the aeronautical authorities in respect of all scheduled services to and from Hong Kong will until otherwise agreed between the Governments of the UK and Hong Kong be the UK Department of Transport acting in consultation with the Hong Kong Civil Aviation Department.
2. The Hong Kong Civil Aviation Department will issue the necessary operating permits to foreign airlines for scheduled services provided for in arrangements between the said aeronautical authorities and foreign governments concerning scheduled services to and from Hong Kong. The Hong Kong Civil Aviation Department will issue the necessary operating permits for non-scheduled services in accordance with its own policy.
3. The UK Department of Transport and the Hong Kong Civil Aviation Department will issue the necessary operating permits to Hong Kong based and UK based airlines respectively for services provided for in the Memorandum of Understanding between the UK Department of Transport and the Hong Kong Civil Aviation Department dated [ ] and in any subsequent understandings.
4. This agreement will remain in effect until otherwise agreed by the UK and Hong Kong Governments.

MEMORANDUM OF UNDERSTANDING BETWEEN THE UK DEPARTMENT OF  
TRANSPORT AND THE HONG KONG CIVIL AVIATION DEPARTMENT

1. British airlines not having their principal place of business in Hong Kong may operate scheduled services on the route; points in the UK - intermediate points (including Tokyo) - Hong Kong with traffic rights on all sectors and to points beyond with without traffic rights.
2. British airlines having their principal place of business in Hong Kong may operate scheduled services on the route: Hong Kong-intermediate points - London, with traffic rights on all sectors.
3. British airlines not having their principal place of business in Hong Kong and airlines having their principal place of business in Hong Kong may be designated by the UK DTP and Hong Kong CAD respectively. For the time being BA, BCAL and CPA will be the designated airlines and may each operate upto 10 services per week using any type of equipment.
4. In addition BA may operate one service per week on the route Hong Kong-intermediate points - Johannesburg with traffic rights on all sectors and may further for the time being operate one of the services in paragraph 3. beyond Hong Kong with traffic rights to Peking and a further two of the services in paragraph 3 beyond Hong Kong without traffic rights to Manila.
5. This Memorandum of Understanding will remain in effect until otherwise agreed by the UK Department of Transport and the Hong Kong Civil Aviation Department.

## LEGISLATIVE IMPLICATIONS

1. New Hong Kong regulations to provide for licensing of airlines having their principal place of business in Hong Kong and to reconstitute the Hong Kong ATLA in accordance with the Hong Kong Government's requirements.
2. New Hong Kong primary legislation to replace the Air Navigation (Overseas Territories) Order and to provide for the Hong Kong Civil Aviation Department to issue operating permits to airlines not having their principal place of business in Hong Kong, to maintain a separate register of aircraft, and to perform related safety and supervisory functions.
3. Amendment of the Civil Aviation Act so as to exclude from the Civil Aviation Authority's jurisdiction flights by aircraft registered in overseas territories where autonomous licensing, safety and supervisory systems acceptable to the Secretary of State for Transport have been instituted.
4. Amendment of the Air Navigation Order / <sup>and possibly</sup> the Civil Aviation Act as well to provide for the Secretary of State for Transport to issue operating permits for services touching the UK to airlines having their principal place of business in overseas territories where such airlines do not require licences from the CAA.

NOTE: (Use could if necessary be made of the Secretary of State's existing power of direction to the CAA for an interim period pending the enactment of the amendment legislation envisaged in paragraphs 3 and 4).

24 JUL 1987

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

John Coles Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

29 July, 1983

*2*  
*9a. W 4/8*  
*Prime Minister*  
*to note*  
*AT 2/8*

*Dear John*

**UK-CHINA AIR SERVICES**

You wrote to John Rhodes in the Department of Trade on 6 December saying that the Prime Minister endorsed the Foreign and Commonwealth Secretary's views on the handling of the bilateral air services consultations with China.

In the event, the consultations were difficult and concluded without significant result. It was, however, agreed that Cathay and CAAC should discuss increased services between Hong Kong and Shanghai and agreement has been reached on a slight increase in Cathay's capacity on the route in return for heavy royalty payments.

In order to prevent the Chinese from playing one British airline off against another, it was agreed that BA should defer its discussions with CAAC about Hong Kong-Peking rights until Cathay had finished negotiating further rights for themselves.

Cathay's negotiations can now go no further and we have exchanged messages with the Chinese aeronautical authorities during which we agreed to their proposal that BA and CAAC should discuss traffic rights between Hong Kong and Peking. Cathay for their part will not of course discuss this topic with CAAC to prevent their being played off against BA.

Further government consultations are likely once we know the results of the BA-CAAC discussions. In the meantime, in view of the earlier correspondence, I think you might like to be aware of recent developments.

I am sending a copy of this letter to Richard Kinchen (FCO).

*Yours sincerely*

*Alice Baker*

**ALICE BAKER**  
Private Secretary

AEROSPACE: UK/Hong Kong Air Service

June 1988

2 AUG 1988



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Aerospace Hll



CC FEO

10 DOWNING STREET

From the Private Secretary

6 December 1982

UK/China Air Services

The Prime Minister has seen your Secretary of State's letter of 25 November to the Foreign and Commonwealth Secretary and Mr. Pym's minute of 3 December.

Mrs. Thatcher agrees with the Foreign and Commonwealth Secretary that, given the state of our talks with the Chinese about the future of Hong Kong, it would not be right to threaten withdrawal from the 1979 confidential Memorandum of Understanding. The Prime Minister prefers the alternative approach outlined in your Secretary of State's letter, i.e. working within the framework of the 1979 arrangements, seeking increased services for Cathay to Shanghai and attempting to obtain local rights for British Airways between Hong Kong and Peking in exchange for additional services on the same routes by CAAC.

I am copying this letter to John Holmes (Foreign and Commonwealth Office).

A. J. COLES

John Rhodes, Esq.,  
Department of Trade.

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B



FCS/82/202

LORD COCKFIELD

Yes Mr

UK/China Air Services

Prime Minister:  
 Lord Cockfield's minute  
 is attached. Of the options  
 he proposes, the Foreign  
 Secretary prefers the  
 second, which would  
 not involve a threat of  
 withdrawal from the 1979  
 Memorandum of Understanding  
 on regional air services. Do  
 you agree?

JF

3/12

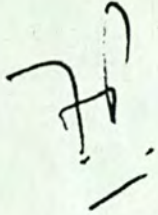
1. Thank you for your letter of 25 November about the forthcoming air services negotiations to be held with the Chinese. I am grateful to you for taking the trouble to spell out in such detail this complex issue.
2. I agree that we must make a major effort to secure a greater share of the available market for British airlines. I also see the force of the argument that in order to be sure of persuading the Chinese to negotiate a more equitable regime we might need to threaten to abandon the 1979 arrangements. However, having obtained the view of the Governor of Hong Kong and the Ambassador in Peking, I do not think that we should go that far. You will be aware of course of the important discussions with the Chinese on the future of Hong Kong. I believe that to take a very tough line over air services at this juncture would be linked in the Chinese mind to our position on the much wider question of the future status of Hong Kong. They will not wish to be seen, particularly now, to be going further than they have already in conceding that Hong Kong is foreign territory for air services purposes. In these circumstances, we could not assume that the Chinese would not react badly in the wider negotiations. Moreover the Chinese control the air traffic and air space over China

/and



and could call our bluff, in which case we could be left with no memorandum at all and in a position where Chinese 'face' over Hong Kong's status was at stake. My conclusion is therefore that any threat of withdrawal from the 1979 confidential Memorandum of Understanding involves a risk which would not be justified in the circumstances.

3. There does, however, in any case seem to be scope for successful negotiation on the lines of the second option you mention. The demand for air movements between Hong Kong and China is expanding. I see no reason why we should not argue strongly that it should be filled on a balanced basis between British and Chinese carriers. In taking this line we should make it clear to the Chinese that we would not agree to any increase in flights by Chinese carriers if there was no increase for British carriers. There is, I believe, some reason to think that this approach might work: the Chinese agreement to an early meeting represents a sudden shift in their ground which may indicate that they are looking for something from us. If this proves to be the case, it should be possible to exploit the situation to the benefit of our airlines.

  
(FRANCIS PYM)

Foreign and Commonwealth Office  
3 December 1982



FCS/82/202

LORD COCKFIELD

*See my letter.*

*AR 6/12*

UK/China Air Services

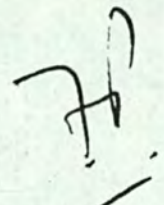
1. Thank you for your letter of <sup>attached</sup> 25 November about the forthcoming air services negotiations to be held with the Chinese. I am grateful to you for taking the trouble to spell out in such detail this complex issue.
2. I agree that we must make a major effort to secure a greater share of the available market for British airlines. I also see the force of the argument that in order to be sure of persuading the Chinese to negotiate a more equitable regime we might need to threaten to abandon the 1979 arrangements. However, having obtained the view of the Governor of Hong Kong and the Ambassador in Peking, I do not think that we should go that far. You will be aware of course of the important discussions with the Chinese on the future of Hong Kong. I believe that to take a very tough line over air services at this juncture would be linked in the Chinese mind to our position on the much wider question of the future status of Hong Kong. They will not wish to be seen, particularly now, to be going further than they have already in conceding that Hong Kong is foreign territory for air services purposes. In these circumstances, we could not assume that the Chinese would not react badly in the wider negotiations. Moreover the Chinese control the air traffic and air space over China

/and



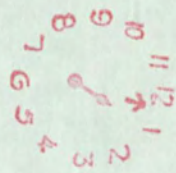
and could call our bluff, in which case we could be left with no memorandum at all and in a position where Chinese 'face' over Hong Kong's status was at stake. My conclusion is therefore that any threat of withdrawal from the 1979 confidential Memorandum of Understanding involves a risk which would not be justified in the circumstances.

3. There does, however, in any case seem to be scope for successful negotiation on the lines of the second option you mention. The demand for air movements between Hong Kong and China is expanding. I see no reason why we should not argue strongly that it should be filled on a balanced basis between British and Chinese carriers. In taking this line we should make it clear to the Chinese that we would not agree to any increase in flights by Chinese carriers if there was no increase for British carriers. There is, I believe, some reason to think that this approach might work: the Chinese agreement to an early meeting represents a sudden shift in their ground which may indicate that they are looking for something from us. If this proves to be the case, it should be possible to exploit the situation to the benefit of our airlines.

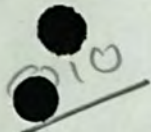
  
(FRANCIS PYM)

Foreign and Commonwealth Office  
3 December 1982

6 DEC 1982







*From the Secretary of State*

CONFIDENTIAL

The Rt Hon Francis Pym MC MP  
Secretary of State for  
Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

25 November 1982

*New Francis,*

AIR SERVICES WITH CHINA

Briefing for the Prime Minister's recent visit to China explained the difficulty we have in obtaining for British Airways and Cathay Pacific a reasonable share of air services between Hong Kong and points in China. It noted the differences of view between our two Departments which would need to be resolved before the next round of air services discussions, which are now expected to take place in the week beginning 6 December. We need to agree a line by then on how we improve BA and Cathay's position without risking damage to the wider negotiations which the Prime Minister set in train.

Background

The most immediate issue at next month's negotiations will be the services to be operated after 31 March 1983. At present, the Chinese (CAAC) carry the lion's share of the traffic between Hong Kong and mainland China. Given the 50 CAAC services a week last summer, there is a gross disparity with the 4 services operated by Cathay and BA. We shall want to provide adequate capacity on a rapidly growing sector, and for it to be shared on a reasonable basis by our two airlines and CAAC for services on the two major routes - from Hong Kong to Shanghai, and to Peking.

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*From the Secretary of State*

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At the peak period, CAAC operated 12 Hong Kong-Shanghai services each week, including 3 via nearby Nanjing. By contrast, Cathay had only 3 services, representing one-third of the agreed capacity. Since beginning their services to London, Cathay have been technically disqualified from operating any Shanghai services: the Chinese have refused designation, but allowed services to operate on an interim basis with a 5% royalty penalty on all sales.

o

At peak periods, CAAC operated 9 B707 services weekly on the Hong Kong-Peking route, 4 via nearby Tianjin. Cathay have none, and although BA's once weekly London B747 service is routed via Hong Kong, they are not allowed to carry local passengers between Hong Kong and Peking, with the result that they usually have some 300 empty seats on that sector. By next summer, it is generally accepted that the service will require a total capacity equivalent to at least 12 x B707.

The Negotiations

We shall probably be able to obtain some more capacity for Cathay's Shanghai service. The Peking service is the more difficult issue.

In any normal circumstances, Cathay would be the natural choice to operate the Peking service. But we know the Chinese will resist this very strongly. They will argue that Cathay are technically disqualified because of their London service, but at a deeper level we think they may fear and resent the existence of a powerful airline based in Hong Kong and will do everything possible to keep it out of Peking. There are indications that they will be less sensitive to the provision of a BA service.

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*From the Secretary of State*

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My negotiators believe that the only way to get Cathay into Peking is to negotiate a completely new Memorandum of Understanding on the regional services, and that this would require the leverage of withdrawing from the old one. This could be achieved on 12 months' notice, and we believe that the Chinese would not let the agreement expire without a replacement since the Hong Kong service is, apart from the Tokyo service, CAAC's only major source of profit.

It is against this background that we have to choose between two possible approaches to the forthcoming negotiations:-

- (i) We could insist that the review of the current arrangements should lead to unqualified Chinese acceptance of our designation of Cathay for services to Shanghai and to Peking, and a reasonable share of such services; and if the Chinese refuse to grant this, we should threaten, and at a second round early next year be prepared to give notice of, withdrawal from the present Memorandum of Understanding governing regional services; BA might have to cease routeing their Peking service over Hong Kong if we had local rights for Cathay. But in a full review we could try to retain the Hong Kong route for BA, perhaps in exchange for allowing CAAC to operate one or two services a week via Hong Kong to London with rights.

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*From the Secretary of State*

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- (ii) Working within the framework of the 1979 arrangements, we should seek increased services for Cathay to Shanghai, in line with market growth; and we should try to obtain local rights for BA between Hong Kong and Peking in exchange for additional services on the same routes by CAAC.

I would much prefer the first option. It provides a good chance of securing unqualified acceptance of Cathay operating the local services between Hong Kong and both Shanghai and Peking, and possibly end the inequity of their present royalty obligations or the restriction to one-third capacity written into the 1979 arrangements. If necessary, allowing CAAC one or two London/Hong Kong services a week would be a tolerable price for maintaining BA's London/Peking services over Hong Kong in addition to Cathay operating into Peking. I recognise that you and the Governor of Hong Kong may not want to adopt a strategy which might lead to a trial of strength in the early months of 1984, when other negotiations might be at a critical stage. My own view is, in fact, the opposite - namely that weakness in negotiations over air transport would be regarded as weakness in negotiations generally. But, if a decision were taken not to follow the first option, something might be made out of the second. Its main problem, of course, is that it appears to favour BA rather than Cathay, but it would at least get a United Kingdom airline a share of the Hong Kong/Peking local traffic for the first time.

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*From the Secretary of State*

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I have to add that we cannot simply sit still and do nothing until the wider negotiations have reached some conclusion. Traffic demand on the Peking route is considerable, and unless some of the increased capacity is allowed to United Kingdom airlines we shall in effect have conceded to the Chinese the right to carry all the traffic. This would be a major reverse in air service terms, and one which in my view would also set a very bad precedent for the other matters involving our sovereignty in Hong Kong.

We need to determine our strategy and objectives in good time for the negotiations commencing early next month. If you need to consult the Governor of Hong Kong I attach a draft telegram which you may wish to send.

I am copying this letter and the enclosure to the Prime Minister in view of her interest in negotiations affecting the Hong Kong/China relationship.

*Yours  
Arthur*  
LORD COCKFIELD

CONFIDENTIAL



SECRET (Note: This classification is needed for the safe handling of this telegram in Hong Kong.)

IMMEDIATE

HONG KONG

COPY PEKING

UK/PRC AIR SERVICES

1 At the forthcoming Air Services negotiations with the Chinese, we will be seeking a full review of the 1979 arrangements, but in practice the talks will probably tend to focus on arrangements to apply for the summer of 1983 with particular reference to Shanghai and Peking. Although there will probably be a second round in Peking in March, we need to have clear objectives from the outset.

2 Department of Trade still consider that the best and possibly the only means of obtaining permanent rights for CPA to serve Shanghai and a fortiori Peking is to threaten notice of withdrawal from the regional CMU at December talks, be prepared to carry out that threat when talks are resumed as we must expect in March and in the last resort be prepared to see all regional services cease at the end of March 1984 unless the Chinese come to terms as Department of Trade believe they would. March is the best time to put pressure on CAAC because the summer season is so profitable for them.

3 If you still do not agree that we should be prepared to accept the degree of confrontation which this course implies, CPA will have to rest content with a one-third share of whatever we can agree to be the Hong Kong/Shanghai market for 1983, and there can be little or no hope of obtaining for CPA any access to Hong Kong/Peking traffic. As Mr Sproat told you in July, we are not prepared to push BA off the Hong Kong routing to Peking which is the only economic option they have unless by so doing we can be sure to gain access for CPA.



SECRET

4 However, it is essential to resolve the dispute over Tianjin/Peking services, which will become acute next summer, in a way which ensures that some United Kingdom airline gets a reasonable share of the additional capacity over and above 5 x B707s which will be needed between Hong Kong and Peking next summer. There was evidence to suggest that even in 1982 CAAC were thinking of operating 7 Tianjin services, and we should like to know what capacity you judge will be needed next year between Hong Kong and Peking.

5 Extension of the status quo is unacceptable because it results in an unsatisfactory indirect service for the travelling public and invites CAAC to continue to abuse their right to provide an unreciprocated service to Tianjin in order to maintain and extend a permanent monopoly on Hong Kong/Peking services to which they are not entitled either by the 1979 agreement or by their permits which reflect it. It is important to try to negotiate a way out of this situation now, not just in air services terms, but also in the wider context of Hong Kong's relations with China since monopoly services have implications for sovereignty.

6 Thus if you still do not agree that we should adopt the course proposed in paragraph 2 above, the only practical option if the demand for services between Hong Kong and Peking is to be met on anything other than a monopoly basis by CAAC is to build on the proposals which BA have been exploring informally and on their own initiative in Peking so that they might carry a significant quota of local traffic in exchange for additional Hong Kong/Peking services by CAAC. Looking further ahead, if BA can establish the right to a share of local Hong Kong/Peking traffic, this should improve the chances of CPA being allowed to assume such rights at a later date.

- END -



10 DOWNING STREET

Prime Minister

Laker

Aerogram  
②

ms

I was told privately by the  
Department of Trade yesterday evening  
that they believe that Tiny Rowlands  
is distaning himself from Freddie  
Laker — he is less optimistic than  
earlier of being able to put the necessary  
finance together.

MS 18/2



SUBJECT



file

cc, JMT  
D/Trade  
By E.

VB

10 DOWNING STREET

From the Private Secretary

8 February 1982

cc Master

Dear Anne,

Laker Airways

The Prime Minister held a meeting about Laker Airways, at 1800 on Thursday 4 February. Your Minister, Mr. Quinlan (HM Treasury), Mr. Knighton (Department of Trade), Mr. Beckett and Mr. Ayling (Solicitor and Assistant Solicitor, Department of Trade) and Mr. Walker (Bank of England) were present. Later on the Chancellor of the Exchequer and Mr. Colegate (Group Director, Economic Services at the Civil Aviation Authority) joined the meeting.

The Prime Minister said that she had learnt from Mr. Sproat that events were closing in rapidly on Laker Airways. Mr. Sproat had been telephoned by Sir Freddie Laker earlier on in the day; Sir Freddie had told him that only Government intervention could save him now. The Prime Minister asked whether Government assistance to Laker of around £5 million might be enough to save him from collapse. Would it be possible to limit the Government's liability to £5 million or would an injection of cash of this order necessarily involve the Government in underwriting Laker's much larger liabilities?

Your Minister and Messrs Knighton and Walker explained the background. A month or so ago the position had been that if headroom of some £5 million was created in the facilities available to Laker he seemed likely to be able to avoid an immediate crisis and to keep going until traffic picked up in the spring. But publication of Laker's January traffic figures, which were significantly down, had caused those institutions with whom he had been negotiating, in particular Midland Bank and McDonnell Douglas, to draw back, and had intensified their worries about the position in September, when the next set of financial hurdles faced Laker. It had been helpful to learn that the Government looked favourably upon ECGD support for the sale of Laker's three airbuses to Cyprus Airways. But for all the financial merits for Laker of such a sale it nevertheless involved him in a loss of some \$27 million. It was for consideration whether the Government might find some way of restoring this loss to Laker either by an inducement to British Aerospace to buy back the planes at no loss to Laker (under, perhaps, Section 1 of the Civil Aviation Act 1949), or through some direct subvention either to Laker Airways itself, or to their bankers, or to the purchaser of these aircraft. Notwithstanding the present misgivings of Midland and McDonnell Douglas it was likely that Government help on this scale, or even on the scale of some £5-7 million, would lead them to re-assess their position and to continue their support for Laker Airways over the crucial coming months.

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/ The Prime Minister

BK

The Prime Minister enquired whether it would be possible to place a ring fence around any such payment. Could the Government avoid liability under Section 332 of the Companies' Act 1948 to underwrite Laker's debts, which might be in excess of £200 million? It was pointed out that the Government was not, in law, bound by the Companies' Act. For moral and political reasons, however, it was desirable to act as though Section 332 applied to the Government. On this basis it would be difficult to avoid an accusation that, by putting money into the company, the Government was inducing others to extend their credit to the company. If the Government attached a time-limit to its support, and made it plain that such support was, in its judgement, adequate to maintain the company in a sound condition during that period, its maximum liability might be contained within that sum. The problem then would be what course to follow when the time limit was reached if, as seemed likely, further support was then required to keep Laker in being. There were, too, wider implications. If the Government directly supported Laker it would make its position in not supporting other companies in a similar financial position very difficult to hold. The problem would arise acutely if another airline found itself in difficulties. It would be argued that those who lived by the market should also be ready to die by the market.

In further discussion the Prime Minister noted that Sir Freddie had been told in October 1981 that he required a cash injection of some £50 million in order to restore his business to health. Since then the circumstances of Laker Airways had deteriorated. His traffic figures had been poor for several months and had shown in January a significant worsening in relation to the worst forecast in December. The CAA had a statutory duty to form a view about whether he could trade out of his present very difficult situation. At present it seemed unlikely that the company would be able to trade between now and end-March unless there was an injection of cash of the order of £5 million; the company appeared to have no basis on which it could forecast where it would be after the end of March. There was a lack of confidence, and receipts from travel agents had fallen. The total weekly traffic carried by Laker recently had been at an all-time low level; some 4,600 passengers were being carried by an airline employing some 2,300 staff.

Summing up the discussion, the Prime Minister said that it was her wish to leave no avenue unexplored in the attempt to find a way of saving Laker Airways. The travelling public would be ill-served by the demise of Laker: there must be a suspicion that the big airlines, once Laker was eliminated from the scene, would raise their fares. It would be difficult to persuade the Government's supporters that it was right to withhold £5 million, or up to \$27 million, from Laker Airways when the Government had recently injected some £50 million into British Airways, who were making very large losses. But it was clear that sums of this order would serve only to delay the end; and no means had been found of ensuring that such a subvention would not lead to wider, and open-ended, liabilities for the Government. She was satisfied that Departments and the Bank of England had done everything that they could reasonably do to assist Laker Airways; nothing more could be done.

/ In further discussion

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In further discussion, the arrangements for alleviating the difficulties for travellers, and for minimising their losses, were explained; and the Prime Minister took note of the advice which the Department of Trade and the CAA would be issuing immediately after an announcement that a Receiver had been appointed.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade) and David Walker (Bank of England).

Yours sincerely,

Michael Scholar

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Miss A.U. Willcocks,  
Department of Trade.

CONFIDENTIAL

GR/PI type as sp.

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DRAFT LETTER TO MISS A U Willcocks,  
PS/Mr Iain Sproat, MP  
Department of Trade  
1 Victoria Street, SW1

LAKER AIRWAYS *about Laker Airways at 6 pm on*

The Prime Minister held a meeting with ~~your Minister~~  
*Your Minister,*  
on Thursday, 4 February, ~~about Laker Airways,~~ Mr. Quinlan (HM Treasury),  
*(Department of Trade), and Mr Ayling (Solicitor and Assistant Solicitor, Department of Trade),*  
Mr Knighton ~~and Mr Beckett~~ *(Department of Trade)* and Mr Walker (Bank  
of England) were ~~also~~ present. Later on the Chancellor of the  
Exchequer joined the meeting.

*and Mr Colegate (Group Director Economic Services, at the Civil Aviation Authority)*

The Prime Minister said that she had learnt from Mr Sproat that events were closing in rapidly on Laker Airways. Mr Sproat had been telephoned by Sir Freddie Laker earlier on in the day; Sir Freddie had told him that only Government intervention could save him now. The Prime Minister ~~said that she had the impression that~~ *asked whether* Government assistance to Laker of around £5m might be enough to save him from collapse. ~~Was this correct,~~ and would it be possible to limit the Government's liability to ~~£5m,~~ *£5m,* or would an injection of cash of this order necessarily involve the Government in underwriting Laker's much larger liabilities?

*Your Minister and Messrs.*

~~Messrs Sproat,~~ Knighton and Walker explained the background. A month or so ago the position had been that if headroom of some £5m was created in the ~~bank~~ *bank* facilities available to Laker he ~~would be able to keep going until the pick-up in traffic as the spring approached.~~ *avoid any immediate crisis and to* ~~until~~ *picked up in* ~~as the spring approached.~~ *seemed likely to* The Midland Bank and McDonnell Douglas had been persuaded to put up ~~this sum.~~ But publication of Laker's January traffic figures, which were significantly down, had caused ~~both institutions to draw back,~~ *these institutions in particular Midland Bank and McDonnell Douglas* and had intensified their worries about the position in September, when the next set of financial hurdles faced Laker. It had been helpful to learn that the Government looked favourably upon EGD support for the sale of Laker's three airbuses to Cyprus Airways. But for all the financial merits ~~of such a sale~~ *of some \$27m* ~~for Laker,~~ it nevertheless involved him in a ~~\$27m~~ loss. It was for consideration whether the Government might find some way of restoring this loss to Laker, ~~through a payment to British Aerospace,~~ either by an inducement to British Aerospace to buy back the planes at no loss to Laker ~~(under~~ *perhaps,* Section 1 of the Civil Aviation Act ~~),~~ *1949* or through some direct subvention either to Laker Airways itself, or to their bankers, or to the purchaser of these aircraft. Notwithstanding the present misgivings of Midland and McDonnell Douglas it was likely that Government help on this scale,

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or even on the scale of some £ 5 - 7 m, would lead them to re-assess their position and to continue their support for Laker Airways over the crucial coming months.

The Prime Minister enquired whether it would be possible to place a ringed fence around any such payment. Could ~~not~~ the Government avoid liability under Section 332 of the Companies' Act 1948 to underwrite Laker's <sup>debts</sup> liabilities, which might be <sup>in excess of</sup> ~~of the order of~~ some £200m? It was pointed out that the Government was not, in law, bound by the Companies' Act. For moral and political reasons, however, it was desirable to act as though Section 332 applied to the Government. On this basis it would be difficult to avoid an accusation that, by putting money into the company, the Government was inducing others to extend their credit to the company. If the Government attached a time-limit to its support, and <sup>made it plain</sup> ~~ensured~~ that such support ~~as it gave~~ was, in its judgement, adequate to maintain the company in a sound condition during that period, its maximum liability <sup>might</sup> ~~would~~ be contained within that sum. The problem then would be what course to follow when the time limit was reached if, as seemed likely, further support was <sup>then</sup> required to keep Laker in being. There were, too, wider implications. If the Government directly supported Laker it would make its position in not supporting other companies in a similar financial position very difficult to hold. The problem would arise acutely if another airline found itself in difficulties. ~~It would be argued~~ <sup>that those who lived by the market should also be ready to die by the market.</sup>

In further discussion ~~(in which Mr Colgate of the CAA participated)~~ the Prime Minister noted that Sir Freddie had been told in October, 1981 that he required a cash injection of some £50m in order to restore his business to health. Since then the circumstances of Laker Airways had deteriorated. His traffic figures had been poor for several months and had shown in January a significant worsening in relation to the <sup>worst</sup> ~~bottom line~~ forecast in December. The CAA <sup>had a statutory duty</sup> ~~would~~ <sup>have</sup> to form a view about whether he could trade out of his present very difficult situation. At present ~~this looked unlikely;~~ and the company appeared to have no basis on which it could forecast where it would be after the end of March. There was a lack of confidence, and receipts from travel agents had fallen. The total <sup>weekly</sup> traffic

*seemed*  
it ~~looked unlikely~~ that the company <sup>might be able to trade between now and</sup> ~~would be able to trade between now and~~ end-March unless <sup>there was an</sup> ~~some~~ <sup>injection of cash of the order of £5m;</sup>

/carried

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The travelling public would be

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ill-served by the demise

- 3 -

of Laker:

There must be a suspicion that the big airlines, once Laker was eliminated from the scene, would raise their fares.

carried by Laker in <sup>recently weeks</sup> had been at an all time low level; some 4,600 passengers had <sup>were being</sup> been carried by an airline employing some 2,300 staff.

Summming up the discussion, the Prime Minister said that <sup>her wish had been</sup> she wished to leave no avenue unexplored in <sup>the</sup> her attempt to find a way of saving Laker Airways. Her ~~objective was to find some way of preventing his collapse.~~ It would be difficult to persuade the Government's supporters that it was right to withhold <sup>say, up to £5m, or up to £27m</sup> £13m from Laker Airways when the Government had recently injected some £50m into British Airways, who were making very large losses. But it was clear that <sup>serve</sup> a sum of this order would <sup>only</sup> delay the end; and no means had been found of ensuring that such a subvention would not lead to wider, and open-ended, liabilities for the Government. She was satisfied that Departments and the Bank of England had done everything that <sup>they</sup> they could reasonably <sup>do</sup> do to assist Laker Airways; nothing more could ~~possibly~~ be done.

~~minimising travellers' losses and for~~

In further discussion, the arrangements for <sup>and for minimising their losses</sup> alleviating the ~~the~~ difficulties for travellers affected by the demise of Laker were explained; and the Prime Minister took ~~careful~~ note of the advice which the Department of Trade and the CAA would be issuing immediately after an announcement <sup>that</sup> for a receiver had been appointed.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Dpartment of Trade) and David Walker (Bank of England).

**CONFIDENTIAL**

PRIME MINISTER

ck Mr Gow 2

Laker Statement

Mr. Sproat did very well in a surprisingly well attended House, by Friday standards.

I attach a copy of his statement. In the exchanges which followed, he showed that he was very much in command of the situation, and he went out of his way to pick up and expand the many generous statements made from the Government benches about Sir Freddie's important and pioneering work.

For the Opposition, Ken Woolmer expressed particular concern for those with Laker bookings, and for the employees. He was also concerned about the unease of recent weeks, when contrasted with Sir Freddie's statement that he "couldn't be more confident about the future" earlier in the week. There was a case for appointing a Companies Act Inspector to review the situation. He also wanted to know about the future of the route licences, and said that the Government's aviation policy now required rapid overhaul. In response, Mr. Sproat took the opportunity to demonstrate both the levels of funding available for the needs of the booked charter passengers, and the work that had gone on in the course of the morning to establish how stranded passengers could be got home. He singled out Adam Thomson's offer of free passage by British Caledonian for anyone really stranded. He reported that the aviation authorities would be looking at the future of the Atlantic route licences if Laker surrendered them. The Government remained convinced that aviation policy should be based on the principle of striving for a better deal for the consumer.

A surprisingly aggressive David Steel said that this "pathetic statement by a junior Minister" would not satisfy the House. "The jewel in the crown of the economic theories of the Government" had gone. A full statement of aviation policy was now necessary. David Ennals was horrified at Mr. Sproat's mention of British Airways privatisation. And the Government had not raised

a finger to help this "prime example of public enterprise". Stanley Clinton Davis described Laker as a victim of Sir Freddie's unwarranted optimism and the cut-throat competition which he and the Government had engendered. The stranded charter passengers were being underwritten by labour legislation. Norman Atkinson spoke of the "biggest airborne bucket shop in history". Dennis Skinner saw the affair as the biggest failure of monetarism, and quoted reported anti-union statements by Sir Freddie, while Bob Cryer saw the Laker funeral as the exposure of competition, because competition implied a race which meant there would always be losers. For the SDP, Edward Lyons saw the affair as an indictment of the Government's economic policies. Only stimulation of the economy would save other well known companies.

More constructively, Michael English wanted to know how the Government proposed to press for a European free market for air fares. On the Government side, all speakers saluted Sir Freddie's pioneering efforts, and his service to airline passengers. Questioners gave Mr. Sproat the chance to stress the Government's continuing commitment to privatise British Airways, the fact that British Airways lost £140 million (pre tax) last year, whilst private airlines in the UK made an overall profit, and the problems of competing against airlines whose deficits could be covered by subsidy. Ian Paisley joined in tributes to Laker.

In the closing exchange, Mr. Woolmer asked about approaches from Laker for assistance. He argued that euphoria from either side of the House about Laker's past achievements or present failure was misplaced. The questions were whether the company's affairs had been carried out correctly, and where the Government's aviation policy now stood. Mr. Sproat said that Sir Freddie had phoned him at lunch-time yesterday. Mr. Sproat had considered the possibilities of Section 8 assistance under the Industry Act, but had reluctantly concluded that it was not appropriate. He would look again at Section 165 of the Companies Act but the Receiver would doubtless inform the Government if he saw reason for enquiry. If there was a liquidation, there would need to be some investigation. He would be happy to see a future debate on aviation policy, taking account of these developments when matters



had been tidied up, if the Leader of the House could arrange it.

MA

CONFIDENTIAL

5 February 1982

DRAFT PARLIAMENTARY STATEMENT

I learned with great regret <sup>this morning</sup> ~~on Friday~~ of the decision to appoint a receiver to Laker Airways.

Laker Airways announced last August that the strengthening of the US dollar relative to sterling had increased substantially the cost of servicing dollar loans which the airline had obtained to finance the purchase of aircraft. Furthermore, traffic had been below expectations for the whole airline industry, but particularly for Laker. It was therefore negotiating with the syndicates of lenders, who had furnished the loans, a deferment of some of the repayments.

Negotiations have been taking place since then but although, as I understand it, considerable progress was made towards obtaining substantial, additional financial support, at the same time Laker's trading conditions have deteriorated significantly, particularly in the last 2 or 3 weeks, and success could not in the end be achieved.

Both the Bank of England and the Civil Aviation Authority (which has a statutory duty to monitor the financial soundness of airlines) have kept in touch with negotiations between Laker Airways and their lenders.

Since I felt that travellers affected by this decision would look to my Department for the earliest possible advice about their position, the House will understand that I thought it right to issue guidance to help them this afternoon.

Briefly it was that in the event that the receiver decides to cease operating flights passengers who have paid for bookings for a package holiday would be protected in the first instance by the bond (guaranteed by the bank) which Laker's tour operating companies provide as a condition of their Air Travel Organisers' licences. This bond would be immediately available to enable alternative arrangements to be made to bring home people who are already abroad.

Those who had booked but not yet travelled could seek compensation from the bond, and if it proved insufficient to meet all legitimate claims, from the Air Travel Reserve Fund.

These arrangements would not cover those travelling on Skytrain scheduled services. If Laker services were no longer operating they would have to travel by alternative means. If they had unused tickets they would be in the position of unsecured creditors, unless they could exchange them for valid tickets issued by another airline.

I understand that the receiver is exploring every possibility of minimising the inconvenience suffered by passengers, and it will become clearer when he has had a little more time how this can be done. Travellers affected should therefore watch for further information in the media.

Many Hon Members will share the sadness I feel at this event, after Sir Freddie Laker has done so much to make air travel available to a wider market, and I would like to express my sympathy with the employees and management of the company, and all others who may suffer loss of inconvenience as a result.

## Laker Airways

2.33 pm

**The Under-Secretary of State for Trade (Mr. Iain Sproat):** I learnt with great regret this morning of the decision to appoint a receiver to Laker Airways.

Laker Airways announced last August that the strengthening of the United States dollar relative to sterling had increased substantially the cost of servicing dollar loans which the airline had obtained to finance the purchase of aircraft. Furthermore, traffic had been below expectations for the whole airline industry, but particularly for Laker. It was therefore negotiating with the syndicates of lenders, who had furnished the loans, a deferment of some of the repayments.

Negotiations have been taking place since then, but although, as I understand it, considerable progress was made towards obtaining substantial additional financial support, at the same time Laker's trading conditions have deteriorated significantly, particularly in the last two or three weeks, and success could not in the end be achieved.

Both the Bank of England and the Civil Aviation Authority, which has a statutory duty to monitor the financial soundness of airlines, have kept in touch with negotiations between Laker Airways and its lenders.

Since I felt that travellers affected by this decision would look to my Department for the earliest possible advice about their position the House will understand that I thought it right to issue guidance to help them this afternoon.

Briefly it was that in the event that the receiver decides to cease operating flights, passengers who have paid for bookings for a package holiday would be protected in the first instance by the bond, guaranteed with the bank, which Laker's tour operating companies provide as a condition of their air travel organisers' licences. This bond would be immediately available to enable alternative arrangements to be made to bring home people who are already abroad.

Those who had booked but not yet travelled could seek compensation from the bond, and if it proved insufficient to meet all legitimate claims, from the air travel reserve fund.

These arrangements would not cover those travelling on Skytrain scheduled services. If Laker services were no longer operating they would have to travel by alternative means. If they had unused tickets they would be in the position of unsecured creditors, unless they could exchange them for valid tickets issued by another airline.

I understand that the receiver is exploring every possibility of minimising the inconvenience suffered by passengers, and it will become clearer when he has had a little more time how this can be done. Travellers affected should therefore watch for further information in the media.

Many hon. Members will share the sadness I feel at this event, after Sir Freddie Laker has done so much to make air travel available to a wider market, and I would like to express my sympathy with the employees and management of the company, and all others who may suffer loss or inconvenience as a result.

**Mr. K. J. Woolmer (Batley and Morley):** The appointment of receivers to Laker Airways today will have come as a tremendous shock to many in the country, not least to the employees, passengers and creditors,

particularly in view of the reported statement by Sir Freddie only three days ago, to the effect that he could not be more confident about the future.

Does the Minister understand that our immediate concern is for passengers travelling with, or booked to travel with Laker Airways and its holiday subsidiaries? Will the Minister give an assurance that holidaymakers will get their money back, that the funds are adequate and that the refunds will be made quickly, so that individuals and families can make alternative holiday arrangements? Does the hon. Gentleman recognise that the position facing passengers booked on scheduled services is totally unsatisfactory and that his statement falls far short of assuring them that they will be properly safeguarded? How many are involved and what does the Minister intend to do on their behalf? What is happening to Laker's air services today, and what is to happen in the next few days? How many employees are involved? I am sure that the hon. Gentleman will join us in hoping that the employees' position will be safeguarded as much as possible.

The House will be well aware that many aspects of the affair have been building up for some time and they must leave people feeling very uneasy about past events. Is it appropriate to appoint an inspector under the powers in the Companies Act to examine the affairs of recent months? What does the Minister intend to do about route licences? How many route licences are involved and what does the hon. Gentleman intend to do to safeguard the interests of British aviation and of commerce? Does not the affair demonstrate the urgent need to review British aviation policy and the Government's apparent failure to have any such policy? The Minister's remarks to me only a few days ago at Question Time about the North Atlantic route have been shown to be the hollow sham that they were then and are now. I ask the Minister to go away to learn some lessons, and to assure us that he will investigate and return to the House with a proper review of aviation policy.

**Mr. Sproat:** Conservative Members and the Government completely share the hon. Gentleman's concern for the passengers. May I completely reassure him that funds from the bonding arrangement and the air travel reserve fund will be adequate: the total amount available from those two sources is over £23 million and that will certainly cover all those on charter holiday packages. The hon. Gentleman also asked me how many scheduled passengers were involved. I am sure that he will appreciate that it is difficult to know exactly how many are involved, but we understand that the number on each side of the Atlantic is about 5,000. The answer to the hon. Gentleman's question about the number of employees is 2,600, and everything will be done to safeguard them.

The hon. Gentleman raised a very important point about the Companies Act. We have no evidence that an inquiry by any Department, particularly the Department of Trade, under section 165 of the Companies Act 1948 would be justified. If the receiver finds any reason to seek one, he will doubtless inform us. If the company should subsequently go into liquidation, it will be the duty of the liquidator to carry out a full investigation of the circumstances and to report if he has any reason to believe that any impropriety has taken place.

In regard to the effect on the European route licences, Laker Airways had a kind of blanket charter. It was running charter flights—I speak from memory—into five countries in Europe and two in North Africa, Morocco and

[*Mr. Sproat*]

Tunisia. In the United States, he was running services to New York, Los Angeles, Miami and Tampa. As far as these specific licences are concerned, the appropriate authorities on both sides of the Atlantic—on this side, of course, the Civil Aviation Authority—will examine them to see what can be done and who may apply for them when and if Laker Airways give them up.

I have been asked about the general effects of the Government's policy. We remain absolutely convinced that the principle is that we should strive for a better deal for the consumer and that we should pursue our policy of competition and seeking stability for the airlines. That has been our policy. It will continue to be our policy.

**Mr. David Steel** (Roxburgh, Selkirk and Peebles): In the absence of the Leader of the House, may I say to the Under-Secretary that this pathetic statement by a junior Minister will not satisfy the House? Is he aware that all hon. Members are conscious of the fact that Sir Freddie Laker and his company were the jewel in the crown of the free economic theories of this Government—

**Mr. Dennis Skinner** (Bolsover): And of the Liberals.

**Mr. Steel:** No, not of the Liberals—and that they have become the latest nail in the coffin of those theories? Do the Government still believe that the Civil Aviation Authority has a duty to balance the need of the consumer for competitive air fares, the interests of the taxpayer in the support of British Airways and the interests of other airways? Have not the Government consistently undermined that balancing authority? When will the House hear a full statement on aviation policy?

**Mr. Sproat:** As for the disappointment that the right hon. Gentleman appears to feel about the statement, he will perhaps agree, when he has studied it further, that it is an extremely full statement. It goes into the sort of details that will be most helpful to air passengers.

On the balance of the Government's policies, the right hon. Gentleman may care to reflect on the fact that one result has been that the three British airlines flying the North Atlantic last year carried more passengers and out-earned the nine American airlines. That is a tremendous achievement. It is precisely that balance between stability for the airlines and benefit for the consumer that we intend to continue to pursue.

**Mr. Michael Neubert** (Romford): On this black day for air travel—I flew on the first charter flight to be operated by Laker Airways and salute Sir Freddie for his lifetime commitment to cheap air fares—is not one lesson to be drawn that free enterprise is unlikely to be able to flourish in conditions of world recession in competition with State-subsidised public corporations? Is it not an irony that British Airways, which made a loss of £120 million last year, is still flying today whereas Laker Airways, with debts of half that amount, is now in receivership? Can the Minister say whether there has been any positive response from other British carriers such as British Airways and British Caledonian in helping those Laker passengers who are marooned abroad or who may have paid for tickets for flights in the near future?

**Mr. Sproat:** I thank my hon. Friend for his generous but no more than deserved salute to Sir Freddie. Sir Freddie is, indeed, a very great man who has done

wonderful things for passengers all around the world in providing them with cheaper air travel. My hon. Friend's remarks about Sir Freddie will be greatly appreciated at this difficult time for him.

My hon. Friend will know that it is and will continue to be the firm policy of the Government to privatise British Airways as soon as is practicable. My hon. Friend referred, I think, to a loss made by British Airways last year amounting to £120 million. In fact the pre-tax loss was £141 million, even greater. My hon. Friend is right in saying that we have to look closely at the manner in which taxpayers' money is used to fund these nationalised industries.

However, having said that, I should also point out that I spoke this morning to the chairman of British Airways, Sir John King, and to the chairman of British Caledonian. They both made extremely generous statements about how they would help any stranded passengers that they could. The chairman of British Caledonian, Mr. Adam Thompson, with superb generosity, said that, if necessary, he would fly stranded passengers back free to the United Kingdom. That shows what free enterprise will do, when called upon.

**Mr. David Ennals** (Norwich, North): Is the Minister aware that many on these Benches and in the country, will be horrified by the threat that he has now made to privatise British Airways, which presumably would then go down in the same way as Sir Freddie Laker has gone down? Second, does not the Minister feel any sense of responsibility? If Laker Airways was the prime example of successful private enterprise, why have his Department and the Government—as far as I can see—not raised a finger to save it to preserve the jobs of 2,000 workers, as well as the holidays of tens of thousands of customers?

**Mr. Sproat:** I am astounded that apparently the right hon. Gentleman is not aware that it has been our policy for a very long time to privatise British Airways. It is extraordinary, if he does not know that, it shows what little interest he takes in the matter. Perhaps I21 should also tell him, as apparently he is unaware of the fact, that last year private airlines overall in this country, as opposed to British Airways, made an overall profit. He should remember that when he criticises our private airlines.

In answer to what the right hon. Gentleman said about helping Sir Freddie, no formal approaches were made by the officials of Laker Airways to my Department, and we would not consider it appropriate in this case to intervene.

**Mr. Anthony Gran** (Harrow, Central): Will my hon. Friend take no notice of the nonsense that is talked by the leader of the Liberal Party—or by the right hon. Member for Norwich, North (Mr. Ennals)—because nothing that he has said and nothing that has happened in any way detracts from the need to privatise British Airways and retain competition? Will my hon. Friend accept that Sir Freddie Laker has rendered a great service to a great number of people who otherwise would not have been able to travel by air? My hon. Friend should take on board the important fact that aviation is an international business, that it involves international agreements, and that it is vital to obtain international agreements on a common sense and fair system whereby scheduled services can be available for the regular business traveller.

**Mr. Sproat:** I am glad to have the support of my hon. Friend the Member for Harrow, Central (Mr. Grant) on the

privatisation of British Airways. It is our firm intention to go ahead with that. I was also glad to hear his tribute to Sir Freddie Laker, whose vision, initiative and enterprise made worldwide travel available to many people who otherwise could never have dreamt of it. What my hon. Friend said about the worldwide implications is right. My Department is constantly trying to get the best possible air services agreements so that we get a good deal for the customers and achieve stability for the airlines concerned.

**Mr. Clinton Davis** (Hackney, Central): Is it not clear that Sir Freddie Laker has been the victim of his own unwarranted optimism and of the cut-throat competition which has been engendered and encouraged by this Government and, indeed, by Sir Freddie Laker himself? Is it not also a fact that it is only as a result of the Labour Government's Air Travel Reserve Fund Act that any hope is offered to charter passengers today? Will the Minister look again at section 165 of the Companies Act, from which he will see, having regard to the reckless statements by Sir Freddie only two days ago, that passengers, creditors and others might well have been misled? Moreover, if the Minister will look at the ratio of debt to capital on which Sir Freddie was operating, he will see that there is ample ground for inspectors to be appointed. That ought to be done.

**Mr. Sproat:** Although it is inappropriate to go into all the reasons why Sir Freddie is now in receivership, there is no doubt that two main reasons were the changing rate of the pound to the dollar after Sir Freddie had taken out his loans and, secondly, the worldwide recession in air travel that has affected everyone and has made a substantial contribution to the deterioration in Sir Freddie's traffic figures. As to the hon. Gentleman's other question, I undertake to reconsider section 165.

**Mr. R. A. McCrindle** (Brentwood and Ongar): The Minister has confirmed that, unless passengers have booked on Laker services through a package tour arrangement, no fund is available to compensate those who have booked on scheduled services on an advance purchase basis. Will he extend his discussions beyond British airlines to those who have flown in competition with Sir Freddie Laker across the Atlantic so as to bail out any passengers who might otherwise become stranded? In the process of his consideration, will he also remember the position of the travel agents, sometimes small firms, who may have sold advance purchase Laker tickets and against whom a law suit might be forthcoming from some stranded passengers?

**Mr. Sproat:** I shall certainly consider the problem that my hon. Friend raises about small travel agents. As to his interesting point about bringing rival American airlines into the matter, I have already done so. Both Pan Am and Air Florida have said that they are prepared to make arrangements to help passengers wherever possible.

**Mr. Norman Atkinson** (Tottenham): Does the Minister agree that, far from being a jewel in any crown, the Laker organisation seems to be the biggest airborne bucket shop in history? Will he assure the House that if discussions are to go ahead about the privatisation of British Airways neither Sir Freddie Laker nor the others mentioned will be involved in the process of privatisation? Will he also make a statement about the licensing of the

Laker organisation and explain what he meant by "a kind of blanket charter"? What will happen now to the Laker licences?

**Mr. Sproat:** As to the latter part of the question, I was endeavouring to make it clear to the House that, on scheduled services, specific permission and agreement must be sought for flights between A and B. As to the seven countries outside the United States—five in Europe and two in North Africa—Laker can operate charter flights there and to anywhere that IATA rules apply in Europe without permission for specific routes. That is a clear statement of the position, which applies not only to Laker but to everyone else.

The hon. Gentleman, in his remarks about bucket shops was, as usual, nasty and wrong. Sir Freddie Laker has made a greater contribution to the world travelling public than any other man in this country.

**Rev. Ian Paisley** (Antrim, North): Can the Minister be more forthcoming about what he will do for the employees of Laker Airways? What will he do about the 5,000 passengers stranded across the Atlantic who must get back home? It is not enough to give assurances now. What steps will he take so that those people can get back to their homes?

The travelling public owe a great debt of gratitude to Sir Freddie Laker. Many people who could never have travelled were able to travel because he brought down the price of air fares. As the return air fare from Belfast to London is more expensive than a single air fare across the Atlantic, and yet British Airways tells us that it is still losing money on that flight, surely credit should be given to Sir Freddie today for what he has done.

**Mr. Sproat:** I am grateful to the hon. Gentleman for his well merited remarks about Sir Freddie's contribution to the benefit of air travellers in this country and elsewhere.

With regard to the approximately 5,000—that is our best estimation—passengers stranded on the other side of the Atlantic, as I have already explained, other airlines have said that they will come to arrangements to ferry those people back. Indeed, Mr. Adam Thomson, chairman of British Caledonian, made the extraordinarily generous offer that he would transport free any passenger stranded on the other side of the Atlantic.

As for what will happen to the 2,600 employees, that must be a matter for the receiver.

**Mr. Michael English** (Nottingham, West): Is not the simple truth that Freddie Laker upset the cosy European apple cart? What precise proposals have the Government put to the Council of Ministers to exercise the powers under the Treaty of Rome, Brussels, Paris and all the others to introduce a free market for air fares in Western Europe so that fares to the consumer may be reduced to the charge per mile which obtains in North America?

**Mr. Sproat:** There is much to be said for what lies at the heart of the hon. Gentleman's question. It is undoubtedly true that many routes within Europe are very highly priced as compared not only with other routes in Europe but certainly with routes within the United States. The ratio is sometimes as great as three to one.

**Mr. English:** What are the Government's proposals?

**Mr. Sproat:** If the hon. Gentleman will give me a chance, he will receive as succinct and concise an answer as he has ever received in the House.

The hon. Gentleman spoke of Sir Freddie upsetting the cosy European apple cart. In fact, Sir Freddie's upset, insofar as it was an upset, was mainly concerned with the North Atlantic traffic rather than within Europe where he was operating charter flights.

The Government placed before our European partners, during our Presidency from July to December last year, plans to liberalise air fares and to run inter-regional air services within Europe. I am sorry to say that our European partners threw out those proposals. We are now in the process of negotiations to bring the proposals back before our European partners. We shall press the matter as vigorously as we know how.

**Mr. Edward Lyons (Bradford, West):** As it is clear that in recent weeks economic conditions were continuing to deteriorate and not to improve, which is one reason why the airline collapsed, are not the Government worried that if they continue their present economic policy, which is keeping industry on the floor, a succession of well-known British companies will also bite the dust? Instead of bewailing what is happening in the world at large, is it not time that the Government took action to stimulate the economy so that other companies do not suffer the same fate as Laker?

Furthermore, what possible chance have the 2,600 employees of Laker of finding other jobs in the British air transport industry in the foreseeable future?

**Mr. Sproat:** In his remarks about the British economy, the hon. and learned Gentleman misunderstands Laker's problems. Sir Freddie's problems were concerned with his own deteriorating traffic on the North Atlantic which was not matched among other airlines. One of his problems was that, when news was leaked in the newspapers about the discussions which were taking place, confidence in his ability to continue was reduced, resulting in his traffic figures falling still further, which in turn bred further lack of confidence. It was nothing to do with the British economy. It was mainly to do with the company's own economic situation and the world-wide recession.

With regard to the 2,600 employees, I have already explained that that must be a matter for the receiver.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. I propose to call those hon. Members who have been rising in their places and then to call upon the Whip to move the Adjournment.

**Mr. Albert McQuarrie (Aberdeenshire, East):** I am sure that my hon. Friend will absolutely ignore the irresponsible remarks of the hon. Member for Hackney, Central (Mr. Davis) in connection with Sir Freddie Laker's optimism at the beginning of the week. Will he confirm that although the Clydesdale bank put in the receiver, it was the German banks' withdrawal of their investment in Laker Airways which caused the bankruptcy? Does he agree that the bankruptcy would not have occurred and that Sir Freddie Laker's optimism was perfectly correct until that immediate withdrawal by the German banks yesterday?

**Mr. Sproat:** My hon. Friend is correct in that there were problems with those German banks who were

members of the syndicate led by the Midland Bank. However, there were other problems with members of other syndicates.

**Mr. Dennis Skinner (Bolsover):** Does the Minister recall that when the application was made about setting-up Laker Enterprises, especially on American routes, the proposal was turned down by the Labour Government? Hey presto, the British law courts knew all the answers to our economic and political ills and allowed it to go ahead. We now have the biggest failure of monetarism firmly on the map.

Does the Minister also recall that on 20 June 1980, the same Freddie Laker—at a "do" with the Prime Minister and others—was heard to declare, when talking about trade unions, and, in particular, workers, "Turn the screw until it bleeds, Maggie, and then turn it again"? The Prime Minister has now shown that competitiveness, monetarism and market forces have not been able to work under the greatest architect of monetarism that Britain has ever had, in the name of the Prime Minister. Is it not a fact that while the—[*Interruption.*]

**Mr. Speaker:** Order. The hon. Gentleman must be fair to the hon. Member who has the Adjournment. He must ask a question, because I want to call another hon. Member.

**Mr. Skinner:** Is it not a fact that, although the Prime Minister says that there will be no U-turn, the economy is exemplified by the complete turn-about occurring in British society and this is just another example of that?

**Mr. Sproat:** I know nothing of remarks about trade unions reportedly made, according to the hon. Member, by Sir Freddie. The simplest way of answering him is to say that his question is as wild, imprecise and absurd as usual.

**Mr. Harry Greenway (Ealing, North):** Is it not fair to say that Sir Freddie Laker and his enterprise pitched North Atlantic and other fares at a level which could be sustained in terms of fair competition? It has been said that those fares enabled millions to travel who would otherwise never have done so.

Is it not also true that Sir Freddie Laker has been undermined by the fact that State airlines brought their high fares down to the level he set and which have been sustained by large State subsidies? Is that not a disgrace? Once again, the taxpayers have paid for their own demise.

**Mr. Sproat:** It is true that taxpayers have to pay vast amounts of money to sustain British Airways. Perhaps a £141 million loss last year will convince even the Opposition that there is a problem. I again thank my hon. Friend for the generous tribute he paid to that great man Sir Freddie Laker.

**Mr. Bob Cryer (Keighley):** Will the Minister accept that his remarks this afternoon sound like the funeral arrangements for Freddie Laker and the Laker enterprises as well as the funeral arrangements for the jobs of 2,600 employees who will join the 3 to 4 million people in the dole queue? Does not the Minister understand that when he talks so glibly of private enterprise competition he implies a race and that Laker happens to be a loser? Does that not point to the vulnerability of the whole private enterprise system? Does he realise how childishly absurd he sounds when he suggests that the Government will privatise British Airways? Would he like to give

confidence to British Airways employees that the organisation will not go bankrupt by saying that the threat of bankruptcy will be entirely removed from British Airways because it will never be privatised by this Government after this salutary lesson?

**Mr. Sproat:** We certainly intend to continue with our plans to privatise British Airways as soon as possible. I remind the hon. Gentleman that British private airlines last year made an overall profit, which is more than British Airways did. As for what the hon. Gentleman said about funeral arrangements, I remind him of the good old saying that one cannot keep a good man down; and Sir Freddie is not only a good man.

**Mr. John Wilkinson (Ruislip-Northwood):** Does my hon. Friend agree that Sir Freddie Laker's swashbuckling and highly individualistic style hid a great achievement in pioneering British civil aviation? In negotiations with the Americans, will my hon. Friend try to ensure that the gross over-capacity on the North Atlantic is not exacerbated by the opening up of further gateways on that route? Can he also try to ensure that the infrastructural charges to British airlines, such as landing and navigation charges, are kept to the minimum? As British manufacturing interests are involved, at least indirectly through the airbus industry consortium, can the Minister say how many European airbuses Laker Airways had which are not yet paid for?

**Mr. Sproat:** I welcome my hon. Friend's remarks about Sir Freddie's pioneering example, which he shared with Mr. Adam Thomson of British Caledonian. Over-capacity on the North Atlantic is a serious problem. My officials are discussing it with their counterparts in the United States. My hon. Friend and others will be delighted to know, in relation to keeping down user charges, that the British Airports Authority has decided to raise its charges by not one penny next year.

**Mr. Archie Hamilton (Epsom and Ewell):** Has not the over-capacity on the North Atlantic route been a major factor in Sir Freddie Laker's downfall? Is not my hon. Friend surprised at the churlish attitude of Opposition Members, considering that one of the best things—and perhaps the only good thing done by the last Labour Government—was to knight Sir Freddie?

**Mr. Sproat:** I agree with the implications of my hon. Friend's remarks. It is absolutely appalling that the Opposition should take this attitude to Sir Freddie at this time. I cannot say that I am surprised by that churlishness. It is exactly what we would expect from them. So far as

over-capacity is concerned, I am well aware of the problem and we are doing everything that we can with our counterparts in the United States.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. The hon. Members who are now on their feet rose after I made my comment.

**Mr. Woolmer:** The Minister said that no formal approaches for Government assistance were made. Were any informal approaches for Government assistance made? If so, what options were considered to save British services and jobs, and why were they rejected?

Is it not unsatisfactory that 10,000 scheduled passengers should be left? However much individual institutions seek to help them, may we have an assurance that the Government will involve themselves in the process? Would it not be wrong for hon. Members on either side of the House to use euphoric tones about Sir Freddie Laker—either about his past or about his present downfall?

Is the Minister aware that at the end of the day we shall want to know two things—whether Laker's affairs were carried out reasonably and properly, and what conclusions are to be drawn for British and international aviation policies?

When inquiries are completed, will the Minister ensure that there is a proper debate in the House because the issues need discussing? May we have an assurance that there will be a debate on the Laker affair and the future of British aviation policies?

**Mr. Sproat:** I shall answer the last question first. I should be very happy indeed for a debate to take place on the subject that the hon. Gentleman mentioned. I have no doubt that my right hon. Friend the Leader of the House will take note of what he said.

Laker Airways did not at any time until yesterday approach the Government. Yesterday at lunchtime Sir Freddie himself telephoned me to tell me what the situation was. Naturally, I considered the implications and the possibility of using section 8 of the Industry Act, but with great reluctance I decided that it would not be appropriate.

As for the stranded passengers and Government involvement, I have already made it clear that I was involved by speaking both to Sir John King, chairman of British Airways, and to Mr. Adam Thomson, chairman of British Caledonian, asking them what they could do. They both made an extremely generous response.





From the  
Parliamentary Under Secretary of State

✓ ~~MAP~~  
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LONDON SW1H 0ET

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Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

5 February 1982

Dear Michael,

Further to Peter McCarthy's letter of yesterday, I enclose a revised Statement on Laker Airways, which Mr Sproat will be making at 2.30 pm. I understand that the Prime Minister was content with the earlier draft. Only minor changes have been made to that text.

I am copying this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Jonathan Spencer (Department of Industry), Jim Nursaw (Attorney-General's Office), Tim Allen (Governor of the Bank of England's Office), David Wright (Cabinet Office), Muir Russell (Scottish Office) and Murdo Maclean (Chief Whips Office) and Nicholas Huxtable (Office of the Leader of the House).

Yours sincerely,  
Anne Willcocks

ANNE WILLCOCKS  
PRIVATE SECRETARY TO MR SPROAT

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DRAFT PARLIAMENTARY STATEMENT

I learned with great regret <sup>this morning</sup> ~~on Friday~~ of the decision to appoint a receiver to Laker Airways.

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Laker Airways announced last August that the strengthening of the US dollar relative to sterling had increased substantially the cost of servicing dollar loans which the airline had obtained to finance the purchase of aircraft. Furthermore, traffic had been below expectations for the whole airline industry, but particularly for Laker. It was therefore negotiating with the syndicates of lenders, who had furnished the loans, a deferment of some of the repayments.

Negotiations have been taking place since then but although, as I understand it, considerable progress was made towards obtaining substantial, additional financial support, at the same time Laker's trading conditions have deteriorated significantly, particularly in the last 2 or 3 weeks, and success could not in the end be achieved.

Both the Bank of England and the Civil Aviation Authority (which has a statutory duty to monitor the financial soundness of airlines) have kept in touch with negotiations between Laker Airways and their lenders.

As  
~~Since I felt that~~ travellers affected by this decision would look to my Department for the earliest possible advice about their position, ~~the House will understand that~~ I thought it right to issue guidance to help them this afternoon.

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Briefly it was that in the event that the receiver decides to cease operating flights passengers who have paid for bookings for a package holiday would be protected in the first instance by the bond (guaranteed by the bank) which Laker's tour operating companies provide as a condition of their Air Travel Organisers' licences. This bond would be immediately available to enable alternative arrangements to be made to bring home people who are already abroad.

Those who had booked but not yet travelled could seek compensation from the bond, and if it proved insufficient to meet all legitimate claims, from the Air Travel Reserve Fund.

These arrangements would not cover those travelling on Skytrain scheduled services. If Laker services were no longer operating they would have to travel by alternative means. If they had unused tickets they would be in the position of unsecured creditors, unless they could exchange them for valid tickets issued by another airline.

I understand that the receiver is exploring every possibility of minimising the inconvenience suffered by passengers, and it will become clearer when he has had a little more time how this can be done. Travellers affected should therefore watch for further information in the media.

Many Hon Members will share the sadness I feel at this event, after Sir Freddie Laker has done so much to make air travel available to a wider market, and I would like to express my sympathy with the employees and management of the company, and all others who may suffer loss of inconvenience as a result.

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From the  
Minister of State  
for Consumer Affairs

DEPARTMENT OF TRADE  
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TELEPHONE DIRECT LINE 01 215 5662  
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The Rt Hon Sally Oppenheim MP

Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
No10 Downing Street  
LONDON SW1

4 February 1982

Dear Michael MP,

LAKER AIRWAYS

I attach a draft statement on Laker Airways.

The statement is being circulated on a contingency basis as we understand that Laker's bankers intend to call in their debts at 9.30 tomorrow. Our best assessment is that this will result in a receiver being appointed at about 11 am. A Parliamentary Statement may therefore be necessary at short notice, perhaps tomorrow or on Monday.

I understand that the Leader of the House will wish to wait until nearer the time before taking a final decision on the timing of a statement and detailed changes will still have to be made to the text. I should be grateful, however, if you would seek the Prime Minister's agreement to the making of a statement on these lines.

I am copying this letter to John Kerr (HM Treasury), Terry Mathews (Chief-Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Jonathan Spencer (Department of Industry), Jim Nursaw (Attorney-General's Office), Tim Allen (Government of the Bank of England's Office) David Wright (Cabinet Office) and Murdo Maclean (Chief Whips Office) and Nicholas Huxtable (Office of the Leader of the House).

Yours sincerely,  
Peter McCarthy

PETER McCARTHY  
Private Secretary

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DRAFT PARLIAMENTARY STATEMENT

I learned with great regret yesterday afternoon of Laker Airways' decision to appoint a liquidator ask their bankers to appoint a receiver to manage the company.

Laker Airways announced last August that the strengthening of the US dollar relative to sterling had increased substantially the cost of servicing dollar loans which the airline has obtained to finance the purchase of aircraft. It was therefore negotiating with the syndicates of banks who had furnished the loans a deferment of some of the repayments.

The negotiations have been taking place since then but although as I understand it much progress was made towards obtaining some additional financial support, Laker's trading conditions have deteriorated at the same time, particularly in the last 2 or 3 weeks.

Both the Bank of England and the Civil Aviation Authority (which has a statutory duty to monitor the financial soundness of airlines) have kept in touch with negotiations between Laker Airways and their lenders.

Since I felt that travellers affected by this decision would look to my Department for the earliest possible advice about their position, the House will understand that I thought it right to issue guidance to help them last evening.

CONFIDENTIAL

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Briefly it was that passengers who have paid for bookings for a package holiday will be protected in the first instance by the bond which Laker's tour operating companies provide as a condition of their Air Travel Organiser's licences. This bond will be immediately available to enable alternative arrangements to be made to bring home people who are already abroad.

Those who have booked but not yet travelled can seek compensation from the bond, and if it proves insufficient to meet all legitimate claims, from the Air Travel Reserve Fund.

These arrangements do not cover those travelling on Skytrain scheduled services. If Laker services will no longer be operating they will have to travel by alternative means. If they have unused tickets they will be in the position of unsecured creditors.

Many Hon Members will share the sadness I feel at this event, after Sir Freddie Laker has done so much to make air travel available to a wider market, and I would like to express my sympathy with the employees and management of the company, and all others who may suffer loss or inconvenience as a result.

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From the  
Minister of State  
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

*Aerospace*  
DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662  
SWITCHBOARD 01 215 7877

Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street

4 February 1982

*Dear Michael,*

I attach briefing for the Prime Minister's use at Question Time today on the difficulties facing Laker Airways.

I am sending a copy to Nicholas Huxtable in case the subject is raised during the business statement.

*Yours sincerely,  
Peter McCarthy*

PETER McCARTHY  
Private Secretary

CONFIDENTIAL



LAKER AIRWAYS

LINE TO TAKE

If no decision by Laker has been announced  
It would be inappropriate for me to make any comment.

If Laker have announced receivership or liquidation

As this decision about Laker Airways has only just been announced, it is too early to comment. Ministers in the Department of Trade are being kept informed about the matter, and the Department will be issuing later today advice about the position of travellers who are affected.

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BACKGROUND NOTE

Despite confident statements reported in the press yesterday about Sir Freddie Laker's negotiations to strengthen his company's financial position, traffic figures for Laker Airways in January have cast doubt on the adequacy of those arrangements. Sir Freddie Laker is returning from America today, and will be seeing his bankers (Midland) immediately he arrives. It is probable that he may ask them to appoint a receiver, or put the airline into voluntary liquidation. However the\*position will not necessarily be known until later in the day. The draft replies should be used in whichever circumstances are appropriate.

\*final

Department of Trade Ministers will be prepared to make a statement to the House on Friday, subject to the concurrence of the Leader of the House.

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Prime Minister ✓  
LAKER AIRWAYS

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MP  
4/2

You have been kept in touch with recent developments on the difficulties facing Laker Airways.

It now seems possible that if the end comes for Laker a Statement will be necessary before the end of the week. It will of course need delicate handling.

In the Secretary of State's absence, as head of the Department I would propose to make it. If, however, you would prefer Ian Sproat to handle it neither he nor I would have any objection.

I should be grateful for your advice.

*Sally*

S.O.

SECRET



Aeroplane RM

B/c: A. Duguid

10 DOWNING STREET

*From the Private Secretary*

3 February, 1982

Laker Airways

Thank you for your letter of 1 February about the recent discussions concerning Laker Airways' problems.

The Prime Minister has noted the position. She has expressed the hope that it will prove possible to make progress with an ECGD-backed financing package for the disposal of Laker's airbuses (subject, of course, to Treasury approval). The Prime Minister was grateful for the further information in your letter and looks forward to being kept up to date in future.

I am sending a copy of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Jonathan Spencer (Department of Industry), Jim Nursaw (Attorney-General's Office), Tim Allen (Governor of the Bank of England's Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

Miss A Willcocks  
Department of Trade

So

CAD,

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COMMERCIAL IN CONFIDENCE

Prime Minister

①



From the  
Parliamentary Under Secretary of State

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781  
SWITCHBOARD 01 215 7877

To note.

Would you like me to  
express the hope on your behalf  
that progress on X can be

1 February 1982

Michael Scholar Esq  
10 Downing Street  
London SW1

Dear Michael,

*Yes please  
not*

made, subject to Treasury agreement?

MUS 2/2

LAKER AIRWAYS

Jonathan Rees, in his letter of 22 December told you of the emergence in principle of a private sector solution to Laker Airways' problems. Since that time, there has been continuing discussion on the detailed arrangements, preparatory to the signature of the various rescheduling agreements.

A difficulty has now arisen which could be quite serious for Laker if matters do not go better in the next 24 hours or so. You will recall that McDonnell Douglas and General Electric were to convert some of their outstanding debt to preference shares and to put in some new cash in exchange for equity. They have now said that they are not willing any longer to put in cash but are prepared to convert larger amounts of debt. While this will help on the balance sheet it gives rise to a gap in the cash needs which Laker and his advisers, the Bank of England, and the Civil Aviation Authority all consider is needed to see him through. In further discussions, McDonnell Douglas have gone a little way to bridging the gap by offering to guarantee part of the missing sum and discussions are continuing on the problems this evening.

Some progress has begun to be made on the question of disposing of Laker's airbuses: a possible buyer in the shape of Cyprus Airways has emerged and a financing package for this is being examined. ECGD are urgently considering whether and to what extent they could support this and it appears, subject to Treasury approval, that suitable arrangements can be made.

x |



The situation is rather finely balanced and matters could move quite rapidly, after all that has gone before, if, with the Bank of England's help as honest broker, Laker's creditors cannot fairly quickly find a point of agreement. Mr Sproat therefore feels that the Prime Minister will wish to be further informed in the sense of this letter. He will, of course, keep the Prime Minister in touch with any further developments.

If matters go badly and Laker goes into liquidation, our Ministers will obviously need to be ready to make a statement explaining the Government's position in the matter, the situation of air travellers and the extent to which they are covered against any loss.

Copies go to the Private Secretaries to the Chancellor of the Exchequer, Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

*Yours sincerely,*  
*Anne Willcocks*

ANNE WILLCOCKS  
PRIVATE SECRETARY TO MR SPROAT

Aerospace



Prime Minister

c b T

Ms 23/12

2

CONFIDENTIAL

From the Secretary of State

COMMERCIAL IN CONFIDENCE

Michael Scholar Esq  
 Private Secretary  
 10 Downing Street  
 London, SW1

22nd December 1981

Dear Michael,

## LAKER AIRWAYS

I am writing to confirm the message which I passed to you on Friday evening and which was subsequently widely reported in the press over the weekend that after intensive negotiations, it now seems as if a private sector solution has, in principle, been found to Laker Airways' problems. Although the details of the arrangements are still fluid and subject to possible change, the key to them has been the harnessing of the interest of McDonnell Douglas as manufacturers of the DC 10 aircraft operated by Laker in avoiding his bankruptcy. McDonnell Douglas (and the engine manufacturers General Electric) are in principle prepared to convert some of their outstanding debt to preference shares, to put in some new cash in exchange for equity and to play some part in dealing with the problems connected with the disposal of Laker's Airbus. Laker will be cutting back his operations - a step which is in any case appropriate given the downturn in his traffic this autumn - and will be taking steps to dispose of his Airbus. The Airbus manufacturers, including British Aerospace, are, in view of the other steps being taken to strengthen Laker's position, prepared to allow Laker to defer repayments to them, in respect of any deficiency on the sale of the Airbus.

Clearly, much work needs to be done between now and the middle of January to sew up the details of these arrangements and further difficulties could of course emerge. However considerable progress has undoubtedly been made.

As I mentioned to you on Friday, however pleasing this news is, it would be right to continue to make a very low key response to any requests for comment, steering these in the direction of the commercial parties involved. If these arrangements are concluded satisfactorily Laker will be out of the wood in the

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CONFIDENTIAL

*From the Secretary of State*

COMMERCIAL IN CONFIDENCE

short-term. But he will continue to have a hard struggle over the next year; so the Government should avoid being drawn into any statements about his viability which, if matters subsequently took a turn for the worse, could lead to passengers and other creditors feeling that they had been misled.

Copies go to the Private Secretaries to the Chancellor of the Exchequer, the Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

Yours Sincerely,

Jonathan Rees

J N REES  
Private Secretary

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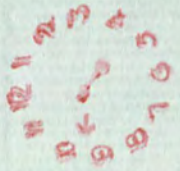


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10 DOWNING STREET

*From the Private Secretary*

21 December 1981

Laker Airways

The Prime Minister was grateful for your Secretary of State's minute of 14 December, whose contents she has carefully noted.

I am sending copies of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Ian Ellison (Department of Industry), Jim Nursaw (Law Officers' Department), Tim Allen (Office of the Governor of the Bank of England) and David Wright (Cabinet Office).

M. C. SCHOLAR

John Rhodes, Esq.,  
Department of Trade.

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COMMERCIAL IN CONFIDENCE

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(2)

10 DOWNING STREET

Prime Minister

MS.

Laker

No written report, after all; but Laker are making a "modestly encouraging" statement later tonight.

McDonnell Douglas and Airbus are putting up some cash, in return for Laker paper. The immediate crisis may, therefore, be over; but they are a long way still from safety.

MCS 18/12



PRIME MINISTER

LAKER AIRWAYS

MS

Mr Biffen's word  
with you after E this  
morning post dates this  
minute.

MUS 15/12

When we spoke tonight, I brought you up-to-date on Laker Airways. However it may be useful, if I also record in writing the state of play as on Monday afternoon.

During the weekend, Laker and his advisers have been considering what action they need to take as a result of the poor November traffic figures to which I referred in my minute of 11 December. The airline presented to the Civil Aviation Authority this morning revised forecasts of traffic and cash flow for the period from now until the end of March, in which they incorporated their ideas for cutting back a number of flights with the aim of improving the operating results. As a result, Laker thought that he could just about manage within his existing facilities, including the £3½ million additional sum to which I referred in my previous minute. But the situation is being further discussed with the banks at a meeting under Bank of England chairmanship this evening.

Meanwhile, Departments have considered again with the Bank of England whether there is anything which the Government could do if Laker and his bankers are not, on a closer examination, satisfied with the picture they find. The sale and lease-back of Airbus would no longer be useful (even if all the difficulties attendant on it could be overcome) because the reduction of flights necessary to improve the profit and loss account will mean that Laker will have little need for the Airbus.



One other possibility was examined. You will recall that the Airbus manufacturers have guaranteed the financing syndicate against loss on a resale of the Airbuses. If the Airbuses could be sold, the manufacturers, instead of taking immediate recourse for this loss against Laker, as they have the right to do, might be asked to take paper, perhaps in the form of 10 year cumulative redeemable preference shares. However, British Aerospace were thought likely to be unwilling to agree to this without a Government guarantee; and I understand that legal advice has now been given to the Department of Industry that the only powers for such a guarantee would be Section 8 of the Industry Act, which would bring all difficulties of direct Government support for Laker set out in my minute of 26 November.

While I do not expect this evening's meeting to reach final conclusions, it may show whether a private sector solution, satisfactory to the Banks and to the Civil Aviation Authority, can still be sought: if so then, amongst other things, the German and Austrian banks will also need to be brought into line.

I will continue to keep you closely informed.

I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

W J B

W.J.B.

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10 DOWNING STREET

From the Private Secretary

14 December 1981

Dear John,

Your Secretary of State had a brief discussion with the Prime Minister this evening about the Monopolies and Mergers Commission report on the proposed takeover of the House of Fraser by Lonrho; and on recent developments in relation to Laker Airways.

The Prime Minister expressed concern about the MMC's recent track record. Their report on Sea Link had not commended itself to her: it had had the effect of retaining this loss-making organisation within British Rail at a time when a willing buyer had come forward to take it over. As the Secretary of State knew, she had not been happy with the credit card decision; her view was that there was properly a discount available for those who paid cash - or, alternatively, a penalty for those who used credit. So far as the Lonrho report was concerned, the Prime Minister said she found it hard to discern much rationality in reports on the proposed takeover by one conglomerate or another. In this particular case, she had had much sympathy with the dissentient report. The Secretary of State explained the background to his decision, and referred to the difficulties which he might face in the courts if the speculation in today's Justinian column in the Financial Times proved to be well-founded. He undertook to provide the Prime Minister with a full brief for her meeting with Mr. du Cann on Friday morning, 18 December.

On Laker, your Secretary of State set out the background to Laker's present difficulties. There was still a hope that Laker could be persuaded to reduce the scale of his operations so as to reduce the scale of the additional funding which was required, but it would be a long haul and there must be very large doubt about whether Laker could survive. The Prime Minister expressed the hope that a solution could be found, but said that she was clear that a 1972 Industry Act rescue was out of the question, since it would involve the Government in accepting responsibility for all Laker's liabilities. Your Secretary of State undertook to keep the Prime Minister in close touch with developments.

I am sending a copy of this letter to John Kerr (HM Treasury).

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,  
Department of Trade.

CONFIDENTIAL



RH

B/c: Mr Loughan  
Mr Suguid

10 DOWNING STREET

From the Private Secretary

14 December, 1981

Laker

The Prime Minister was grateful for your Secretary of State's progress report dated 11 December on the financial problems of Laker Airways. She has commented that she awaits the further information promised in this report.

I should also record that on Friday, when the Prime Minister was told that there was a possibility that Laker would decide to cease trading over the weekend, following the latest traffic figures together with their implication that financing in the range of £3½ - 5 million was now likely to be wholly inadequate, her reaction was to say that there appeared to be nothing which the Government could or should do if indeed the Laker board were on the point of deciding that they could no longer legally trade.

I am sending copies of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Ian Ellison (Department of Industry) Jim Nursaw (Attorney-General's Office), Tim Allen (Bank of England) and David Wright (Cabinet Office).

M. C. SCHOLAR

John Rhodes, Esq  
Department of Trade

CONFIDENTIAL

JR

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7

PRIME MINISTER

*We will await the further information*

LAKER

Prime Minister

*Mr. Biffen's subsequent minute does not completely abandon hope of a solution. He will keep you informed.*

*N.P.C. Mitchell*

*Duty Clerk  
12/12/81*

Mr. Biffen is sending you a minute on the latest developments, which will be attached to this note.

At the time of writing, I had not seen Mr. Biffen's minute. The news we had earlier in the day through the Bank was very gloomy. I understand that Laker's traffic in November fell to disastrous levels, and that the first week's figures for December continued the trend. In the Bank's view, these latest figures make it apparent that Laker has lost the traffic battle. In the face of this news, the private sector solution which had been sought ceases to be viable. Originally, financing in the range £3½-5 million was being sought. The figure now seems to have doubled, and would not be raised. The only way out would be a massive new injection of equity: the Department of Trade do not dispute that this would mean something in the £50 million area.

In the face of these difficulties, the public sector options do not look practical. Mr. Biffen had earlier said that these could only be seen as a last resort. If the Government were to offer public sector support now, of the level required, it would fly in the face of the Government's general stance.

I understand from Michael Scholar that, in the light of what he was able to tell you, you no longer wish to insist that a way must be found to salvage Laker. The Bank thought that it was possible that the Laker board would decide over the weekend that they could no longer legally trade. The Department of Trade believe that they will at least hold on until their scheduled meeting with the CAA and the banks on Monday. But the Department do not dissent from the deep gloom of the reports we have had from the Bank during the day.

Assuming that Mr. Biffen's minute does not contradict this mood, do you accept that there is no scope for further Government action to see Laker through its difficulties?

M.A.P.

11 December 1981

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PRIME MINISTER

You have asked to be kept informed about the progress of the efforts to solve the financial problems of Laker Airways.

After I minuted you on 26 November good progress was made in providing the support from the banking sector which it was then thought would be sufficient to support Laker's operations, particularly through the low season of the winter period. The aircraft manufacturers were marshalled to guarantee a substantial proportion of an additional line of credit of £3.5 million from Laker's bankers. Most of the members of the two international banking syndicates which financed the purchase of his aircraft agreed to a deferment of repayment which he had requested; but two German and one Austrian bank are still considering the matter.

However yesterday the Civil Aviation Authority received statistics for November which showed that the traffic carried by Laker Airways during that month had been substantially below the level of the corresponding period in 1980, and was also a good deal less than had been assumed in the calculations of his cash flow in the forthcoming critical months. Hence unless the November traffic was a temporary phenomenon - and there is no reason to suppose that it was - it raises doubts whether the £3.5 million extra finance which has been marshalled will in fact prove adequate.

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The Civil Aviation Authority are still examining the figures and their implications for traffic and cash flow in the coming months. They have however already formed a tentative view that substantially more cash would be needed to enable the airline to continue to meet commitments. The Bank of England held a meeting with the merchant bankers advising Laker Airways this afternoon, at which the Civil Aviation Authority was also present, and the CAA will be having a further meeting with the airline on Monday morning to obtain a better understanding of what has produced the downturn and of the prospects. Thus we should know more clearly on Monday just how gloomy the picture is, and can then consider whether any action by the Government might be possible. My minute of 26 November, and Patrick Jenkin's comment on it of 2 December made it clear that this would not be a simple matter. We shall however look again at the possibility as soon as we have more precise information about what is needed, and whether there is any further scope for raising additional finance from the private sector.

I will keep you in touch with developments.

I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET  
11 December 1981

WJB  
(Approved by the Secretary  
of State and signed in his  
absence.)

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Aerospace. ✓  
bc August  
Ingham.

10 DOWNING STREET

From the Private Secretary

7 December 1981

Laker Airways

The Prime Minister was grateful for your Secretary of State's minute of 2 December, the contents of which she has carefully noted.

She would be grateful to continue to be kept in touch, and has asked to be consulted if the worries set out in your Secretary of State's minute prove not to be academic.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Michael Arthur (Lord Privy Seal's Office), Terry Mathews (Chief Secretary's Office), Jim Nursaw (Law Officers' Department), David Wright (Cabinet Office) and Tim Allen in the Governor's Office, Bank of England.

MCS

Ian Ellison Esq.,  
Department of Industry.

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CONFIDENTIAL

Prime Minister

COMMERCIAL IN CONFIDENCE

To note

PRIME MINISTER

*Please refer to me for consultation if Laker is in difficulty* MS 3/12  
*ms*

LAKER AIRWAYS

I have seen John Biffen's minute to you of 26 November and your comments, as recorded in the Private Secretary letter of 30 November, on the use of the Civil Aviation Act 1949. I recognise the desirability of avoiding Laker's failure but, having carefully considered the proposals in John Biffen's minute, I am not convinced that I either could or should use my powers under the 1949 Act in the way he suggests.

2 Fortunately, there now appears to be a good prospect that with the help of the Bank of England Laker will be able to mobilise additional overdraft facilities to carry him through the winter period on the basis of guarantees from McDonnell Douglas, General Electric and British Aerospace. The proposal for a sale and lease-back of the Airbus aircraft would no longer be a necessary part of these arrangements. Laker would simply be permitted to defer for one year the principal element of his loan. My Department has already indicated that it would be prepared to continue subsidy in these circumstances.

3 But given the uncertain course of recent negotiations concerning Laker, the sale and lease-back proposal could yet



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recur. If so, we must in my view accept that the provision of a subsidy for sale and lease-back could not be represented as simply being a continuation of what was originally agreed: the Attorney General was quite clear that it would involve a new arrangement to be justified in terms of our vires as at the moment it was entered into. I would therefore have to be satisfied that such an arrangement would be necessary in support of the aircraft manufacturing industry. It would be politically dangerous (and open the way to damaging criticism from the PAC) to use these powers in a way which was seen to be for Laker's benefit rather than British Aerospace.

4 I have myself spoken to Sir Austin Pearce and it is clear that he does not consider a sale and lease-back arrangement for the Airbus aircraft to be justifiable as a means of avoiding damage to the Airbus programme. He told me that there were already 13 Airbuses on the market and that the availability of a further three would not significantly affect Airbus Industrie's prospects.

5 Equally, we should not take a decision to change the basis of the subsidy without recognising the policy implications set out in my minute of 25 November. If we allowed a "double subsidy" to Laker, we could not deny it to other airlines: BCAL would immediately claim it for their A310 purchase. And an important precedent would be created for other industries. I remain to be convinced that we could ignore these considerations.

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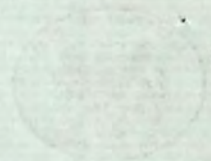
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6 John Biffen's minute also points out that, if Section 8 of the Industry Act 1972 were to be used to rescue Laker, it is possible, under certain circumstances, that HMG would find itself liable for most or all of Laker's debts if the airline subsequently failed. But the legal advice to me is that this danger would not be averted by the use, in the new circumstances of a sale and lease-back, of the powers under Section 1 of the Civil Aviation Act 1949. I should need to assess very carefully at the relevant time Laker's financial position and prospects. The problems by reference to Section 332 of the Companies' Act 1948 would be very much the same. A further use of the Civil Aviation Act 1949 to change the basis of the subsidy would also require an announcement to Parliament and possibly a reference to the EEC Commission. In the light of this, I think John Biffen's minute seriously overstates the relative advantages of using the Civil Aviation Act rather than Section 8 of the Industry Act 1972 if further support for Laker should prove to be necessary.

7 I hope the worries set out in this minute will soon prove to be academic. But I thought you should know my views in case we are called upon for hasty decisions later in the week.

8 I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Trade, the Lord Privy Seal, the Chief Secretary, the Attorney General, the Governor of the Bank of England and to Sir Robert Armstrong.

PJ



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bc AD

Aarogate

10 DOWNING STREET

From the Private Secretary

30 November 1981

Dear John,

LAKER AIRWAYS

The Prime Minister was grateful for your Secretary of State's minute of 26 November, whose contents she has carefully noted. She has commented that she entirely agrees with the view that a solution under the Civil Aviation Act 1949 would be much preferable to new assistance under section 8 of the Industry Act 1972.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Chief Secretary, the Lord Privy Seal, the Secretary of State for Industry, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,  
Department of Trade.

JS





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COMMERCIAL - IN CONFIDENCE

Prime Minister

①

The Deputy-Governor has  
been keeping me in touch by  
telephone on next lines.

I, too, think a CAA solution

much preferable to an Industry Act  
rescue.

*Agreed*

PRIME MINISTER

LAKER AIRWAYS

Officials of the Departments concerned, together with a representative of the Bank of England, met under Treasury chairmanship this morning to explore in what ways the Government might be able to contribute to tiding Laker Airways over their present difficulties if efforts to mobilise sufficient credit from the banking sector ran into difficulties, as requested in your Private Secretary's minute of 25 November. You will wish to know the conclusions they reached. To summarise: a private sector solution is still being pursued; and officials consider that the preferred course for providing Government backing, should this be needed, would be by continuing the Department of Industry subsidy with a sale and lease-back arrangement, which would mean overcoming the difficulties set out in Patrick Jenkin's minute of 25 November; this course would be greatly preferable to new assistance under Section 8 of the Industry Act 1972.

Ms 27/11

Prospects for a private sector solution

Negotiations between the airline and the banks are in progress continuously and the position, and the prospect for a successful outcome, changes constantly. The sale and lease back arrangement which was the subject of Patrick Jenkin's minute of 25 November was a way of meeting the stipulation of Laker's bankers that, in return for an additional £3.5 million overdraft facility which the airline thought might be needed to see it through the winter months, the disposal of some aircraft must be accelerated. It had the merit of being quicker to arrange than sale to another airline,

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COMMERCIAL - IN CONFIDENCE



and improving the balance sheet while enabling Laker to retain the use of the aircraft. However in case the Department of Industry should prove unable to transfer its subsidy (without which the lease terms would offer little or no benefit to Laker's cash flow), the airline and the Banks have been exploring the possibility of obtaining guarantees from the manufacturers of its aircraft (McDonnell Douglas, Airbus Industrie and General Electric) for an extra overdraft up to £5 million. Sir Freddie claims that he has had a favourable reaction from the two American companies; British Aerospace are still considering the proposition. The Department of Industry are encouraging British Aerospace to co-operate.

Hence it is still possible that a satisfactory solution can be found without involving the Government financially.

#### Possible vehicles for Government assistance

A guarantee under Section 8 of the Industry Act 1972 would be a possibility, but it would raise many problems both practical and political.

The most fundamental point is that this would represent a new measure of Government help clearly directed to Laker (as distinct from a continuation of a past measure - the interest rate subsidy - in the changed circumstances of a private sector rescheduling). So the Government, as the lender of last resort, would come to the centre of the stage. The House would, remembering the Court Line case, undoubtedly seek an assurance that the public could safely book next year's holiday. (Air transport is an unusual industry in that the customer is required to pay before delivery.) A qualified assurance would deter them and bring the company down;

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but if it gave a firm reassurance and the airline subsequently failed, the Government might well find itself liable for most or all of Laker's debts.

There would be a number of other aspects. Laker would have to request assistance and submit detailed financial forecasts for evaluation. We should need to consider whether to consult the Industrial Development Advisory Board as has been customary. Assistance over £5 million requires Parliamentary approval; but in any case I think that Parliament would need to be informed. And a Section 8 guarantee would also have to be cleared with the EC, and it would be difficult to justify in relation to our stance in the Community about the application of the competition rules to air transport.

Finally - a key point at this stage - as soon as the banks learned that Laker had sought a Government guarantee there would be no further progress towards a private sector solution.

Because of these disadvantages, officials concluded that an Industry Act guarantee should only be contemplated as a last resort. I endorse this view.

The preferred course

Officials felt that if the difficulties explained in Patrick Jenkin's minute could be overcome, the best way of providing Government support would be to continue the present Department of Industry subsidy arrangements for the benefit of a sale and lease-back scheme.

The subsidy which the Department of Industry gives at present to lower the interest rate on Laker's Airbus is provided under Section 1 of the Civil Aviation Act 1949. This is drawn in wide



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terms, and authorises inter alia "measures to assist the development of civil aviation". However in practice the powers have been used only to provide launching aid for the development and manufacture of aircraft and engines, but never to subsidise an airline, and when the Act was passed there were no private sector airlines in operation. Officials concluded that it was most doubtful that this wording in the Act conferred powers which could be used as a basis for some completely new financial assistance clearly directed to an airline - in this case Laker Airways.

Officials therefore considered again how the present subsidy originally given for aircraft manufacturing could be continued on the same grounds. The Attorney General had advised that if the Secretary of State for Industry could be satisfied that the continuation of the subsidy would benefit Airbus production, this could provide sufficient legal basis for this. So far, British Aerospace have not been prepared to support this proposition. However, it transpired that BAe firmly believed that if the sale and lease-back went ahead, Airbus Industrie would be asked to increase their exposure by guaranteeing a loss or resale of more than the 25% which they have already agreed to bear. If this fear were removed, BAe's response might be different. Officials are exploring urgently whether this may offer a solution to meeting the Attorney General's stipulation, and hence towards satisfying Patrick Jenkin.

I hope that it will, because I feel that although for contractual reasons, as the Attorney General has pointed out, there would have to be a new agreement between the Department of Industry and the leasing company, in substance the new arrangements can be seen as a continuation of those already in operation, provided the important question of vires can be dealt with.

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I consider that officials should urgently follow up this line of approach. Although the deadline of noon today was lifted, it appears that Laker's lenders will require some evidence by 5 December of significant progress to ensure that the airline has adequate resources to support its operations during the coming year.

I am copying this minute to the Chancellor of the Exchequer, the Chief Secretary, the Lord Privy Seal, the Secretary of State for Industry, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

W J B

(Approved by the Secretary of State and signed in his absence.)

26 November 1981

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

BK



file

cc: Trade  
Ch. Ex.  
Ch. Sec.  
LPS  
AGO  
B.J.  
CO  
Aerospace.

10 DOWNING STREET

From the Private Secretary

25 November 1981

*Urgent B/S*

Dear Ian,

Laker: Airbus

The Prime Minister was grateful for your Secretary of State's minute of 25 November about Laker's current difficulties. She is most concerned about the way in which events are now moving for Laker. She has asked me to say that she is determined that Laker should not be allowed to fail. She understands that the principal cause of Laker's present difficulties is the effect of movements in exchange rates on his financial situation. On the basis, therefore, that this is a temporary problem, the Prime Minister wants every possible avenue explored with a view to tiding Laker over this difficult period.

The Prime Minister is in particular most concerned about the deadline of noon on Thursday 26 November to which your Secretary of State refers. Given the Prime Minister's very heavy preoccupations over the next two days (among them the European Council meeting) she will find the greatest difficulty in herself devoting any time to this matter. She therefore hopes that it may be possible to postpone the deadline so as to give the Government more time to consider what its next step might be.

I would be grateful if you could keep me closely in touch with events. I am sending copies of this letter to John Rhodes (Department of Trade), John Kerr (Chancellor of the Exchequer's Office), Terry Mathews (Chief Secretary's Office), Michael Arthur (Lord Privy Seal's Office), Jim Nursaw (Attorney General's Office), Tim Allen (Governor of the Bank of England's Office) and David Wright (Cabinet Office).

*Yours sincerely,*  
*Michael Scholar*

Ian Ellison, Esq.,  
Department of Industry

BK



CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

Prime Minister

PRIME MINISTER

LAKER: AIRBUS

yng A

Your Private Secretary wrote on 17 November to record your agreement with Geoffrey Howe's view that it is not realistic to consider providing direct financial support to Laker. I entirely agree.

Laker needs to enter into a sale/ leaseback to have any chance of survival. In this situation government interest-rate supports must cease (government support for Laker is then routed via tax relief to the lessors).  
 The government could mount a 1972 Industry Act rescue - but I assume you and the Chancellor have already ruled this out. Content to note and take no action?

ML325/4

2 Officials in the Department have been in discussion with the Bank of England to explore whether the interest rate support, which was given in respect of Laker's initial purchase of three Airbus A300 aircraft, can be continued. It might have been possible to continue the support as part of a package under which Laker would be granted a moratorium in 1982 on the capital element of his debt to the Midland Bank but the Bank of England now say that such arrangements are unlikely to prove sufficient to deal with Laker's anticipated financial problems in the first half of 1982 and with the burden of debt in the immediately following years. A proposal has now emerged for a sale and lease - back arrangement involving the banks, which appears to be the only way of lessening the medium-term burden on Laker so as to justify the banks providing further short-term credit. The Bank of England have asked whether an interest rate subsidy could be provided in support of these arrangements, which are said to be the only way that finance for Laker can be mobilised.

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COMMERCIAL IN CONFIDENCE

3 Officials have considered the position carefully but have been forced to the conclusion that a subsidy cannot be provided in these circumstances. It is clear that the proposed leasing arrangement would involve much more than an amendment to the contractual arrangements for the purchase of the aircraft which was initially supported. The Government would not merely be using the discretion which was foreseen as part of those original arrangements, but would be offering support to an entirely new facility. The Attorney General has been consulted and his view is that the new facility would itself need to be judged against the requirements of the Civil Aviation Act 1949 which gives powers to support measures for the development and production of civil aircraft and under which the present subsidy is provided. Since Laker already has the aircraft and is not now at the point of choosing between Airbus and a competitive product, a strong justification would be required to show that the new subsidy was demonstrably necessary to avoid damage to the Airbus programme. This question has been explored with British Aerospace who take the view that, while there would be certain benefits to themselves in Laker continuing to operate the Airbus aircraft for the rest of their asset life, they would not be prepared to accept any greater exposure under their first loss guarantee as a means of assisting Laker to set up the leasing arrangements. In these circumstances, legal advice is that a decision to enter into new arrangements could not be defended as being within the vires of the 1949 Act.

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4 In any event, it seems dangerous in principle to accept the argument that subsidies should be paid not merely to enable new aircraft to be produced, but also to prevent existing aircraft from coming onto (and depressing) the market. In present circumstances, this argument could be extended indefinitely to prop up companies who would otherwise go into liquidation.

5 The Government are being asked to participate in arrangements designed to secure additional benefits for Laker at the taxpayers' expense. The benefit of the leasing arrangements lies in the fact that the lessors would have sufficient taxable profits to offset against the depreciation of the assets they would acquire. Part or all of this benefit would be passed to Laker, along with the benefits of the interest rate subsidy on the underlying loan. It is doubtful in principle whether the Government should facilitate this kind of double subsidy.

6 The rationale for giving an interest rate subsidy for domestic Airbus sales is to match the financing terms available for competing US aircraft and to remove the incentive which UK airlines would otherwise have to buy abroad. If we were to acquiesce in the arrangements now proposed, we would not merely be matching terms which might have been available through Exim Bank but would be paying a "premium" for Laker's benefit. This would certainly have implications for the pattern of support which other airlines would expect in respect of future domestic Airbus purchases.

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7 If, as is alleged, Government assistance is necessary to Laker's survival, it would be possible to mount a rescue operation using the Industry Act 1972. It would, however, be for John Biffen to propose such an operation and you and Geoffrey Howe have already made your views clear.

8 Events are now moving very rapidly and, unless I hear to the contrary by noon on Thursday 26 November, I intend to inform the Bank of England that the Government cannot provide a subsidy for the proposed leasing arrangements.

9 I am copying this minute to Geoffrey Howe, John Biffen, Humphrey Atkins, Leon Brittan, Michael Havers and to Sir Robert Armstrong.

*PJ*

P J

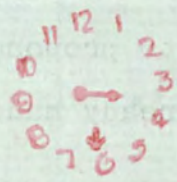
25 November 1981

Department of Industry

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COMMERCIAL IN CONFIDENCE



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cc B/T  
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10 DOWNING STREET

Aerograce

From the Private Secretary

20 November 1981

LAKER AIRWAYS

The Prime Minister was grateful for the Chancellor's minute of 17 November.

She shares the Chancellor's view that it is not realistic to consider providing direct financial support for the company; and that, apart from the political embarrassment, given that Sir Freddie Laker has built his public image on independence from Government, there is no economic case which could justify such support.

I am sending copies of this letter to John Rhodes (Department of Trade), Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

M. C. SCHOLAR

John Kerr, Esq.,  
HM Treasury.

CS



Prime Minister

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and say that

you agree

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

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Mes 17/11

LAKER AIRWAYS

I have been kept in touch with developments. As you know the Bank of England have played a helpful role in persuading Laker's creditors to defer capital repayments for at least 12 months. As Iain Sproat's minute to you of 11 November suggests, the Bank have made good progress in this and it would from this standpoint be a matter for regret if the Civil Aviation Authority were to feel it necessary to give early notice of intention to revoke Laker's operating licence. I understand that the likelihood of their taking an unfavourable decision in the next few days now looks slight.

2. There is perhaps little that Government can do at this stage to help find a solution. I find it hard to view the question of our providing direct financial support for the company as realistic. Apart from the political embarrassment, given that Sir Freddie Laker has built his public image on independence from Government, there is no economic case which could justify such support; the industry has a great deal of excess capacity and Laker is not the only privately-owned British airline in difficulties.

3. I am copying this to the Secretary of State for Trade and the Secretary of State for Industry.

(G.H.)

17 November 1981

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2



Prime Minister

PRIME MINISTER

*[Handwritten scribble]*

The short point is that

Laker is now much more threatened  
by the CAA, who may feel obliged to revoke  
his licence to protect consumers, than by  
his bankers.

MUS 11/4

LAKER AIRWAYS

In John Biffen's absence abroad, I am writing to inform you about developments in the last few days concerning Laker Airways.

You are aware of the background to Laker's problems, and to their request for deferment of repayments of instalments of loans made to finance their aircraft purchases. The syndicate led by the US Export-Import Bank (EXIM) has twice agreed to postpone for a month payment of an amount due in mid-September while negotiations continue between Laker Airways and their various lenders.

Last Wednesday, a meeting of all the lending organisations took place in London under the chairmanship of Midland Bank. The Bank of England and the Civil Aviation Authority (CAA) were represented. The meeting heard explanations by Samuel Montagu, Laker's merchant bank advisers, about the airline's present financial position and prospects, and proposals for improving them. These required the co-operation of the lenders to postpone payments of principal on their loans due in the twelve months to September 1982 to afford a



breathing space in which the airline could dispose of some of its aircraft and obtain fresh equity investment to strengthen its balance sheet. The lenders undertook to give their replies this week.

The Bank of England held a meeting yesterday afternoon to take stock of the lenders' responses. Officials from this Department and the Chairman and a Group Director from the Civil Aviation Authority were also present. The Midland Bank reported that most of the members of their syndicate had agreed to the postponement, and they expected that three German banks who were showing some reluctance would be persuaded to follow suit. The Chairman of EXIM had given his approval, and all except one of the EXIM syndicate had already agreed; the last member's reply was still awaited. The banks' support will be subject to a number of conditions designed to strengthen the airline's financial position, notably the sale of some of its aircraft, negotiations for the injection of new equity capital, the provision of weekly financial reports, and the strengthening of the company's management.

You will recall from the letter John Biffen's private secretary wrote on 14 August that the CAA has a duty to revoke or suspend an airline's licence if it is no longer satisfied that the licence holder's resources and financial arrangements are adequate to meet his actual and potential obligations.





The Authority have been concerned about Laker's ability, from the projection of cash flow produced to the lenders last week, to meet his obligations throughout the next twelve months and thus to survive next year's holiday peak. Their doubts arose from what they felt to be unjustified optimism in the airline's forecast of the traffic it would carry, and they are anxious to satisfy themselves that there will be adequate cash flow even if the rather depressed level of traffic which Laker has recently experienced should persist. It was agreed at the meeting that Samuel Montagu would provide additional information on this point to the Bank and the CAA today if possible.

The Board of the Authority had been contemplating holding a special meeting today to consider whether they should issue a notice to Laker Airways of their intention to revoke their licences. This decision is one for the Authority; it is not subject to endorsement by the Department, though because of its exceptional importance in this case, the Authority have kept myself and officials here closely informed about their thinking. The meeting will not now take place today; whether it is held in the next few days will depend on the further information which Samuel Montagu are providing.



If CAA decide to give this notice, it is done in confidence, and the licence holder has a minimum of 21 days in which to make representations to the Authority against revocation. It would be improper for the Government to try to dissuade the CAA from discharging their statutory duty by issuing notice of revocation to Laker, if they were not satisfied about his financial position. However, the period of notice (which the Authority has discretion to extend) could be used to examine ways in which revocation might be avoided.

In such circumstances the first place to look would be to the existing sources of finance. Sir Freddie Laker has not sought our help, nor indeed talked to any Government Departments about his problems. Although he came to see me a couple of weeks ago on another matter, and we did discuss his overall financial situation, we did not do so at any length. What Laker now need are first to sell some of their surplus aircraft, and secondly to get more equity capital in the company. The Government has no use for the aircraft - British Airways too are trying, in a difficult market, to dispose of aircraft. For the Government to take a shareholding in the company would be a politically unattractive proposition. Nevertheless if the CAA do issue notice of their intention to revoke the licences, and Laker cannot find extra facilities



sufficient to satisfy them, we shall have to consider whether to let events take their course, or whether to provide some help to keep the company in business.

If the CAA do reach the point of proposing to revoke Laker's licences, - which, incidentally, the Chairman of the CAA, Sir Nigel Foulkes, has personally assured me they would not do without letting us know beforehand - it would be better - at least in some ways - that they should do it in the next month or so than wait and find themselves having to take this action next summer.

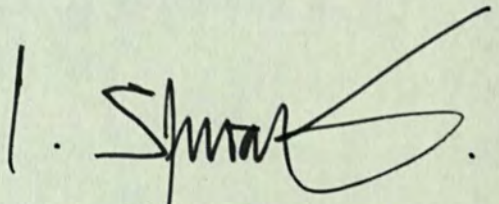
In either case travellers will be temporarily stranded abroad, and others who have paid for inclusive holidays will be prevented from taking them. In the winter the number involved, and the amounts of money paid will be much less. There is more spare capacity on other airlines to repatriate travellers who are stranded. Those who have paid, but not yet travelled, have recourse to the £5M bond which Laker tour operators have had to deposit as a condition of the air travel organisers' licences (ATOL), and if that is exhausted, to the Air Travel Reserve Fund. It appears that these resources could comfortably meet all legitimate claims at this time of year; in the height of the summer season that would be less certain. There would also then be more holders of ordinary tickets, who are not protected like package tours.



A further consequence of the failure of Laker Airways would be some financial loss to British Aerospace, through its participation in Airbus Industrie. That consortium has agreed to indemnify the syndicate financing Laker's three aircraft against loss up to 25% of the outstanding balance, and this guarantee will be called if, as seems likely, the aircraft have to be disposed of at a low price.

John Biffen will keep you informed of further significant developments as they occur.

Copies of this minute go to the Chancellor of the Exchequer and the Secretary of State for Industry.

I. S.   
I.S.

Department of Trade  
1 Victoria Street  
London SW1H 0ET

11 November 1981



From the Secretary of State

Prime Minister 2

Sir Freddie Laker had a meeting with Mr Sprout about this, this afternoon.

CONFIDENTIAL

William Rickett Esq  
Private Secretary  
10 Downing Street  
London, SW1

28 October 1981

*Dear Willie*

NORTH ATLANTIC AIRLINE FARES - THE PAN AM FARES APPLICATION

The Secretary of State has now reached a decision on this issue which has given rise to some public interest (see attached ... selection of Press articles) and on which Sir Freddie Laker amongst others has expressed strong views.

The proposed United Kingdom/United States fares filed by the United States airline Pan American Airways with our Civil Aviation Authority (CAA) match certain Laker fares to New York and, by extension, to other United States cities. The British airlines, and Sir Freddie Laker in particular, were hostile to the Pan Am proposals since they felt that the result would be to increase their losses during the coming winter in the fiercely competitive North Atlantic market.

The CAA's view, with which we agree, is that it would run counter to United Kingdom policy of promoting competition on air fares and that specifically it would contravene the United Kingdom/United States civil aviation bilateral agreement to reject a United States airline filing which does no more than match the fare levels of a British carrier. We have had clear signals from the United States State Department which confirm our view that we would be in for a row with the Americans if Pan Am's proposals were rejected.

Ministers here would not normally concern themselves with particular fare issues but have done so on this occasion because of worries about the financial position of Laker Airways. On this our judgement is that the extra competition that Laker would face if the Pan Am filing is approved would be unwelcome and would add to his financial difficulties, but would not be a crucial factor so far as his prospects for survival are concerned. This assessment coincides with what we understand to be Sir Freddie's own view.

CONFIDENTIAL



*From the Secretary of State*

CONFIDENTIAL

The Secretary of State has decided that there is little option but to approve the Pan Am proposals. It would be contrary both to our formal agreement with the United States government and to the Government's clear policy in favour of competitive air fares to seek to protect any British airline from the impact of reasonable competition. In view of the very tight timetable involved (the new fares come into effect on 1 November) the airlines are being given advance warning of the decision which will be conveyed to Pan Am on Friday 30 October by the CAA. This will give Sir Freddie, if he wishes to do so, the opportunity to see a Minister in this Department before the decision is announced.

I am copying this to Roderic Lyne (FCO).

*Yours sincerely,*

JOHN RHODES  
Private Secretary

CONFIDENTIAL

# Dilemma over cuts in air fares to U.S.

by Roger Bray

THE Civil Aviation Authority is taking longer than expected to decide whether to approve the latest rash of trans-Atlantic fare cuts.

When Pan American sparked off the new fares war last week with a stunning range of cuts running as deep as 66 per cent, early indications were that the authority would approve them without much difficulty.

## Battle

But with British Airways and Trans World now in the thick of battle too, the authority wants time to take a longer, closer look at what is happening.

A decision is now unlikely before next week. The airlines want to introduce the new fares from November 1. There is little doubt that the Trade Department will be under heavy pressure over

the next few days to reject, or at least limit, the proposed cuts.

Sir Freddie Laker has already complained that they appear to be in breach of the bilateral air treaty between Britain and the United States because they are "lower than cost."

## Increase

That accusation was thumped home yesterday by Western Airlines, which revealed that it was going for an increase in fares and suggested that its bigger rivals might be in the grip of a "death wish."

The department is unlikely to move before the CAA's decision in any case and so far there are no indications that officials agree with Sir Freddie's view.

Meanwhile British Caledonian, which competes directly with Pan American on the Houston route, has yet to decide whether to hit back with cuts of its own.

that the proposed new fares will be uneconomic.

Fortunately, the CAA is obliged to quash any fares which it deems uneconomic.

Unfortunately, there is some doubt whether the existing regulations provide the CAA with sufficient power to prevent the airlines price-cutting their way to disaster and all the signs are that the "crazy" new fares will get a reluctant nod of approval.

While the airline industry on the North Atlantic remains so heavily dependent on unbridled free market forces, it is becoming increasingly likely that the price of cheap flights will be more casualties among the airlines. It is this prospect which is no doubt occupying the minds of the regulatory authorities at the CAA.

Just suppose half the carriers collapsed and the survivors then proceeded to double the seat price, who would carry the rap?

Daily Mail, Tuesday, October

# Bid to cut air fares by 66pc is halted

By HARVEY ELLIOTT,  
Air Correspondent

A MOVE to cut trans-Atlantic air fares by up to 66 per cent. was halted by the Civil Aviation Authority last night.

The proposals—by Pan Am, British Airways and TWA — were presented to the CAA more than two weeks ago and would normally have gone through.

But following admissions from airline bosses that the cuts were 'crazy', and representations from Sir Freddie Laker that they were in breach of international agreements, the Government-appointed CAA has now asked for more detailed facts and figures.

British Airways alone stand to lose at least £3 million a year additional revenue if they lower fares without increasing the number of passengers flying with them.

## 'Uneconomic'

Under an agreement with America the CAA can reject the proposed reductions if they are 'uneconomic' or would not give a 'fair return' to the airlines involved.

And last night the authority was understood to be split over the interpretation of the clause, with the majority in favour of rejecting the new proposals.

More meetings are planned before a final decision is taken later this week.

Those in favour of the cuts argue that it would be unfair to allow Sir Freddie Laker to fly the Atlantic at low fares but made other international carriers charge more.

And, they claim, it would be politically embarrassing for Britain to reject fare cuts on the Atlantic run at the same time as the Government is pressing for big reductions in European air fares.

GUARDIAN 20/10/81

## Fare play

THERE IS an intriguing delay in the Civil Aviation Authority giving its necessary approval for the new round of fare cuts on flights across the North Atlantic.

The reductions, which will halve some fares on British Airways and Pan American flights, have been liberally described as "crazy" in the present parlous state of aviation economics. Nor is it surprising that some carriers, like Laker Airways are objecting to the proposed new fares structures.

The length of the CAA debate over North Atlantic fares suggests that those in authority are seriously worried about the probability

*Aerospace*

## 10 DOWNING STREET

THE PRIME MINISTER

19 August 1981

Dear Sir Freddie

Thank you for your further letter of 7 August about the London-Hong Kong route.

We have not received any formal proposals for amending the Hong Kong air transport regulations. But the Hong Kong Government have made it clear to the Department of Trade, in informal talks, that any revision of the regulations which could have the effect of bringing Laker Airways on to the London-Hong Kong route would not be supported by the Government's Executive Council unless at the same time provision were made to end British Airways' exemption from these regulations. In economic and commercial matters the Governor must be guided by the advice of his Council, and there is no previous instance of his overruling them.

It might be possible to secure a short transitional period during which British Airways' existing routes out of Hong Kong could not be challenged. But thereafter, while British Airways would certainly be able to argue that they were serving these routes satisfactorily and should therefore keep them, they would be open to challenge from Cathay Pacific. Whether or not British Airways were serving the routes satisfactorily would be precisely the issue which the Hong Kong Air Transport Licensing Authority would have to determine, and that is not an issue which can be settled by reference to wholly objective criteria. Moreover, as I pointed out in my earlier letter of 17 July, the Civil Aviation Acts in this country, except in respect of the London-Hong Kong route, contain a bias in favour of UK-based airlines; and, as long as that is so, it is difficult to object to the reverse bias in the Hong Kong licensing procedures.

JFA



So I remain of the opinion that the risks to British Airways' routes out of Hong Kong are such that we would not be justified in surrendering the exemption. I quite understand why you are so strongly opposed to this decision. I would ask you in turn to accept that, in reaching it, I have had to take account of the interests of British civil aviation as a whole at a particularly difficult time.

signed

MT

Sir Freddie Laker



From the Secretary of State

Prime Minister

2

There have been press reports of Laker's wish to reschedule £130 m of debt. But department of Trade do not believe these have yet caused any crisis of confidence in Laker. Sir Freddie blames high fuel costs, declining passenger levels, price competition, and the exchange rate for the causes of his problems.

14 August 1981

LM  
17/8

COMMERCIAL - IN CONFIDENCE

William Rickett Esq  
Private Secretary  
10 Downing Street  
London, SW1

Dear Willie,

We spoke a few days ago about the position of Laker Airways, which had been the subject of a telephone call from the Secretary of State to Mr Gow. This letter gives you an up-to-date assessment based on information provided by the Civil Aviation Authority. It also provides a brief explanation of the role of the Authority in these cases, since they, and not the Department of Trade, have the responsibility in this field.

The CAA is concerned with airline finances because of its obligations under Section 23(3) of the Civil Aviation Act 1971 which states, inter alia, that:-

"It shall be the duty of the Authority to revoke or suspend or vary a licence ..... (whichever the Authority thinks appropriate in the circumstances) if the Authority is not or is no longer satisfied ..... that the resources of the holder of the licence and the financial arrangements made by him are adequate for discharging his actual and potential obligations in respect of the business activities in which he is engaged".

The CAA's Economic Services Group (which has direct Main Board involvement) systematically monitors airline finances. Where there is reason to believe that there may be difficulties with a particular company, the level of monitoring is stepped up and a very close watch kept on developments. In the case of Laker, financial reports are being provided monthly and, as a special measure, the CAA has asked for weekly reports of passengers carried. Officials of the CAA went down to see Laker only last week.

The CAA consider that there is no immediate cause for alarm and that the company should be able to continue operations if Sir Freddie's various remedial measures are successful. He is taking a number of steps to improve the financial position of his company - eg by consolidating flights to cut costs and by rescheduling bank payments.

COMMERCIAL - IN CONFIDENCE



*From the Secretary of State*

COMMERCIAL - IN CONFIDENCE

Although there may be problems later in the year (when passenger income falls off with the end of the main tourist season and Laker has to pay capital and interest on some of his Airbus purchases) there is no reason, in the CAA's view, to expect an imminent collapse.

This does, however, assume that there is no crisis of confidence which could severely damage the company. There is already some talk in airline circles of the problems faced by Laker (and other airlines). If this develops into a public discussion of the future of the airline this could lead to the very situation we wish to avoid. Laker's passenger traffic, and thus his income, could suddenly dry up if customers thought the airline were in trouble. Within the Department and the CAA, knowledge of the case is therefore being kept to a very restricted circle on a strictly "need to know" basis.

*Yours ever,*

*Nick McInnes*

N Mc INNES  
Private Secretary

COMMERCIAL - IN CONFIDENCE



*At byre for pm. in  
17/8*  
Aerospace

*From the Secretary of State*

W Rickett Esq  
10 Downing Street  
London SW1

14 August 1981

*Dear Willie,*

I enclose a draft reply for the Prime Minister to send to Sir Freddie Laker's further letter of 7 August about the London-Hong Kong route.

As was indicated by my Secretary of State's minute of 10 June and in my letter to you of 14 July, the risk to BA services out of Hong Kong is not the only argument against the course advocated by Sir Freddie. The risk to BA needs to be judged in the light of the fact that on the London-Hong Kong route fares are low and competition between the existing carriers (BA, BCAL and Cathay Pacific) is intense. The launching of a Laker service would keep fares down, but BA would find it even more difficult to make a profit on the route, and BCAL could well be driven off. My Secretary of State does not feel that in this case the benefit to the traveller from a Laker service would outweigh the damage to our other airlines, particularly when they are all having a difficult time financially, and we need to take whatever steps are reasonably open to us to reduce the BA deficit. Mr Biffen feels, however, that this aspect of the argument is better not deployed in reply to Sir Freddie, as it might seem to call in question the Government's earlier decision to licence Laker as well as the other carriers on the London-Hong Kong route.

*Yours ever,*

*Nick McInnes*

NICK MCINNES  
Private Secretary

**DRAFT**

Addressed to :

Sir Freddie Laker  
Laker Airways Limited  
Gatwick Airport - London  
Horley  
Surrey

**File No.**

Copies to :

Originated by:  
*(Initials and date)*

CWR 12/8/81

Seen by:  
*(Initials and date)*

Enclosures :

Type for signature of

PRIME MINISTER  
.....  
*(Initials and date)*

DEPARTMENT OF TRADE

Thank you for your further letter of 7 August about the London-Hong Kong route.

We have not received any formal proposals for amending the Hong Kong air transport regulations. But the Hong Kong Government have made it clear to the Department of Trade, in informal talks, that any revision of the regulations which could have the effect of bringing Laker Airways on to London-Hong Kong route would not be supported by the Governor's Executive Council unless at the same time provision were made to end British Airways' exemption from these regulations. In economic and commercial matters the Governor must be guided by the advice of his Council, and there is no previous instance of his overruling them.

(CONTINUE TYPING HERE)

File No.

It might be possible to secure a short transitional period during which British Airways' existing routes out of Hong Kong could not be challenged. But thereafter, while British Airways would certainly be able to argue that they were serving these routes satisfactorily and should therefore keep them, they would be open to challenge from Cathay Pacific. Whether or not British Airways were serving the routes satisfactorily would be precisely the issue which the Hong Kong Air Transport Licensing Authority would have to determine, and that is not an issue which can be settled by reference to wholly objective criteria. Moreover, as I pointed out in my earlier letter of 17 July, the Civil Aviation Acts in this country, except in respect of the London-Hong Kong route, contain a bias in favour of UK-based airlines; and, as long as that is so, it is difficult to object to the reverse bias in the Hong Kong licensing procedures.

So I remain of the opinion that the risks to British Airways' routes out of Hong Kong are such that we would not be justified in surrendering the exemption. I quite understand why you are so strongly opposed to this decision. I would ask you in turn to accept that, in reaching it, I have had to take account of the interests of British civil aviation as a whole at a particularly difficult time.

25/8

Sir Freddie LAKER

10 August, 1981

I enclose a copy of a letter the Prime Minister has received from Sir Freddie Laker.

I should be grateful if you could let me have a draft reply for the Prime Minister to send to Sir Freddie, to reach me here by Tuesday, 25 August.

W R

N McInnes, Esq  
Department of Trade

ds

10 August, 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 7 August. This is receiving attention and you will be sent a reply as soon as possible.

W R

Sir Freddie Laker



DOT (Name/Innes) Draft reply for Jm  
by 21/8.

*clp  
no.  
or*

# LAKER AIRWAYS LIMITED

GATWICK AIRPORT - LONDON  
HORLEY, SURREY  
01-668 9363  
CRAWLEY 31222  
TELEX 87307  
CABLES: AIRLAKER GATWICK

FAL/LCC

7th August, 1981

The Rt. Hon. Margaret Thatcher, P.C., M.P.  
10 Downing Street  
London S.W.1.

Dear *Prime Minister*

Thank you for your letter of the 17th July which I am sure you will understand came as a great disappointment to me. This is especially true when I recall that John Nott affirmed to me personally that the Government was dedicated to implementing his decision about the London-Hong Kong air route and getting Laker Airways on that route. He saw it, I believe, as a touchstone of the Government's pro-competitive policies towards air transport and quite rightly the Government and the Conservative Party made political capital out of it.

This is not, however, the only reason for my distress at John Biffen's decision. Even in the terms of protecting the interests of British Airways in which he - and now you - have described it, it seems to me a totally unnecessary withdrawal of support for me and for the principles of competition. Let me explain why I believe this to be so.

When the London-Hong Kong decision was announced, a great point was made of the fact that this route did not have the complications of implementing a route to a foreign nation. The basis for John Biffen's abandonment of support for Laker's London-Hong Kong service is, however, that too high a price would have to be paid to Hong Kong. Why a price? The Hong Kong Government wants us on the route. The Governor has said so. Since one purpose of any new regulations would be so to trim the powers of the Air Transport Licensing Authority that it can no longer flout the wishes of both the U.K. and Hong Kong Governments I find it difficult to give credence to the proposition that in this respect there is a price to be paid.

cont.... /

As to the particular problem of the British Airways service between Hong Kong and Johannesburg, has the Hong Kong Government been pressed on the point of giving solid assurance, in its new regulations, regarding services such as this? And if so, what was its answer? As I see it, if Hong Kong want, as I understand they do, to alter the present situation in which British Airways, alone of British airlines, are exempt from the Hong Kong licensing regulations they have reason on their side because the present situation is simply anachronistic - and inequitable - as between public and private sector companies. But the price which Hong Kong should pay is one of writing into any new regulations the sort of protection of the interest of an incumbent airline which I postulated in my earlier letter to you. This is not protection against fair competition: but is protection against unfair regulatory action to withdraw, or to fail to renew, a licence which is being used to provide a satisfactory public service, so as to ensure, for example, that British Airways could not be evicted from any of their present Hong Kong routes which they are serving satisfactorily.

My interest in this aspect of Hong Kong regulations is not confined to the question of British Airways' services. On your reading of the Hong Kong situation my newly granted transpacific licence to San Francisco and Los Angeles will be at risk as soon as Cathay Pacific show interest in taking the route over - in about three or four years time to judge from statements they have made. This makes me very suspicious of the fact that the Air Transport Licensing Authority, which normally issues licences valid for five years, has granted Laker Airways a licence for three years only, though the parallel Cathay Pacific licence to Vancouver and Seattle is for five years.

In all this it seems to me that it is the actions of the Air Transport Licensing Authority, as now constituted, rather than the policies of the Hong Kong Government, which are the source of difficulty. I should have been more certain of this judgement had we been allowed to see the draft regulations which have been under consideration, but this has not been possible despite their vital importance to my airline. As it is I am totally unconvinced that a solution cannot be found which would be satisfactory to both Governments and which would sustain the proper interests of all the concerned airlines. Ought we not to go on trying? I would be only too happy to join in any consultative process.

With kind regards,

Yours sincerely,

Freddie Laker

cc DOT JD



10 DOWNING STREET

THE PRIME MINISTER

17 July 1981

*Dear Sir Freddie,*

Thank you for your letter of 2 July about your proposed service between London and Hong Kong.

It is firm Government policy to support greater competition between the airlines, and a strong independent sector in the British industry. The Civil Aviation Act 1980, although it doubtless did not go as far as you would have wished, amended the 1971 Act to place a good deal more emphasis on encouraging competition. Both Lord Carrington and I have said publicly that a more liberal civil aviation system within the European Community is among the major objectives of the United Kingdom Presidency.

So I do not think that there can be any doubt of our commitment to the principle of greater competition. British Airways are now facing more competition from the independent British airlines than they have ever had to face in the past. But in the Government's view there are limits to the amount of extra competition which British Airways or indeed any other carrier can be expected to absorb at any one time, particularly during a period of severe recession in civil aviation.

It was against this background that John Biffen reached his decision. At a price, we could probably get Laker Airways on to the London-Hong Kong route, a route on which the existing operators already compete very vigorously with each other. The price is to put at serious risk British Airways' routes out of Hong Kong.

/ This

*tel*

This price would have to be paid whatever system was devised, with Hong Kong agreement, for achieving the result you want. We know that Cathay Pacific are interested in taking over these routes, particularly the Hong Kong-Johannesburg route. I am not so sanguine as you that the interests of an incumbent airline which was providing a good service would be protected. The Hong Kong regulations, if they mirrored the system here, would contain a bias in favour of any Hong Kong-based airline just as the Civil Aviation Acts, except in respect of the London-Hong Kong route, contain a bias in favour of UK-based airlines. After very careful thought John Biffen came to the conclusion that the price was not worth paying, and I support his decision.

I was glad to hear that you have obtained licences both here and in Hong Kong for your Hong Kong-Tokyo-US services. You can be assured that we will do all we reasonably can to get the rights you need out of the Japanese.

Warm regards,

Yours sincerely

Raymond D. Roberts

---

Sir Freddie Laker



*Handwritten notes:*  
 1 Mr Alexander ✓ of Press  
 2 Type for me  
 WR 14/7

*From the Secretary of State*

W Rickett Esq  
 10 Downing Street  
 London SW1

14 July 1981

*Dear Willie,*

In response to your letter of 6 July I enclose a draft reply for the Prime Minister to send to Sir Freddie Laker's letter of 2 July about his proposed London-Hong Kong service.

The background to this case is set out in Mr Biffen's minute of 10 June to the Prime Minister, which was acknowledged by Michael Alexander on 15 June. I need only add the following points in the light of Sir Freddie's letter:-

(i) We have not received any formal proposals from Hong Kong for amending their air transport regulations. The discussions have been on an informal basis between officials of this Department and of the Hong Kong Government. The latter have indicated that any scheme which would be likely to have the effect of bringing Laker on to the London-Hong Kong route would not be supported by the Governor's Executive Council unless at the same time provision were made to end British Airways' exemption from the Hong Kong licensing regulations.

(ii) Sir Freddie estimates at £42m. the revenue he would earn in the first year of operation. This is not an area in which precise estimates can be made with confidence: but if Sir Freddie is right we think that only a small part of this figure would represent passengers who would not otherwise have travelled, and that the majority would be passengers attracted from other (largely British) airlines. Indeed, we believe that the arrival of Laker could well mean the end of British Caledonian's London-Hong Kong service, since the latter have already incurred substantial losses on this route.

(iii) Sir Freddie is not right in saying, in his last paragraph but one, that the decision has not yet been notified to Hong Kong. It has, but in strict confidence.

*Yours ever,*

*Nick McInnes*

N MCINNES  
 Private Secretary

**DRAFT**

Addressed to:

Sir Freddie Laker  
Laker Airways Limited  
Gatwick Airport - London  
Horley  
Surrey

**File No.**

Copies to:

as covering letter  
to No.10

Originated by:  
(Initials and date)

CWR 10/7/81

Seen by:  
(Initials and date)

Enclosures:

Type for signature of

PRIME MINISTER  
.....  
(Initials and date)

DEPARTMENT OF TRADE

Thank you for your letter of 2 July about your proposed service between London and Hong Kong.

It is firm Government policy to support greater competition between the airlines, and a strong independent sector in the British industry. The Civil Aviation Act 1980, although it doubtless did not go<sup>as</sup>/far as you would have wished, amended the 1971 Act to place a good deal more emphasis on the encouragement<sup>ing</sup> of competition. Both Lord Carrington and I have said publicly that a more liberal civil aviation system within the European Community is among the major objectives of the United Kingdom Presidency.

So I do not think that there can be any doubt of our commitment to the principle of greater competition. British Airways are now facing more competition from the independent British airlines than they have ever had to face in the past. But in the Government's view

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File No.

there are limits to the amount of extra competition which British Airways or indeed any other carrier can be expected to absorb at any one time, particularly during a period of severe recession in civil aviation.

It was against this background that John Biffen reached his decision. At a price, we could probably get Laker Airways on to the London-Hong Kong route, a route on which the existing operators already compete very vigorously with each other. The price is to put at serious risk British Airways' routes out of Hong Kong, and whatever system ~~might be~~ <sup>this price would have to be paid</sup> ~~devised~~ <sup>was</sup>, with Hong Kong agreement, for achieving the result you want, ~~this is the price which would have to be paid.~~ We know that Cathay Pacific are interested in taking over these routes, particularly the Hong Kong-Johannesburg route. I am not so sanguine as you that the interests of an incumbent airline which was providing a good service would be protected. The Hong Kong regulations, if they mirrored the system here, would contain a bias in favour of any Hong Kong-based airline just as the Civil Aviation Acts, except in respect of the London-Hong Kong route, contain a bias in favour of UK-based airlines. After very careful thought John Biffen came to the conclusion that the price was not worth paying, and I support his decision.

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File No.

here and in Hong Kong for your Hong Kong-Tokyo-US services. You can be assured that we will do all we reasonably can to get the rights you need out of the Japanese.





10 DOWNING STREET

*From the Private Secretary*

6 July 1981

Sir Freddie LAKER

I enclose a copy of a letter which the Prime Minister has received from Sir Freddie Laker, about the difficulties Laker Airways have been having in obtaining a licence to fly air services between London and Hong Kong.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by Monday 20 July.

W. F. S. RICKETT

Nicholas McInnes, Esq.,  
Department of Trade.

MU

3 July 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 2 July.

I shall place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

WFSR

Sir Freddie Laker

PRIME MINISTER

Laker Airways have been having difficulties in obtaining a licence to fly air services between London and Hong Kong.

In his letter attached, Sir Freddie Laker complains that John Biffen has decided not to accept new Hong Kong regulations which might help the case of Laker Airways.

Content for John Biffen to reply on your behalf?

I will reply if-

JB will

W.F.S.R.

Reply check-

not

3 July 1981

GR/ letter to DOT asking for draft reply for PM to send to Sir Freddie.

WNV  
6/7

Pm 3

# LAKER AIRWAYS LIMITED

GATWICK AIRPORT - LONDON  
HORLEY, SURREY  
01-868 9363  
CRAWLEY 31222  
TELEX 87307  
CABLES: AIRLAKER GATWICK

2nd July 1981

Rt. Hon. Margaret Thatcher P.C., M.P.,  
10 Downing Street  
London SW1

Dear *Prime Minister,*

I think you are familiar with the issues which have arisen out of the efforts which my airline, Laker Airways, has made to be licensed to fly air services between London and Hong Kong. John Nott, as Secretary of State for Trade decided in June 1980 to grant us a licence but our ability to use it has been frustrated by the Air Transport Licensing Authority (ATLA) on Hong Kong. We have had the support of the Governor but the ATLA is an independent body against whose decisions there is no right of appeal except on points of law.

This is an important route for us and I believe that our advent on it would be important for the travelling public. Furthermore, I have seen it as an essential component in a new British round the world air service which just this week has come one step nearer reality by our being granted by the same ATLA a licence to operate across the Pacific between Hong Kong and the United States via Japan. There remain, however, formidable problems vis a vis the Japanese before we can fly the Pacific route.

Because of the unsatisfactory situation highlighted by the ATLA's frustration of Laker Airways licence on the London Hong Kong route, the Hong Kong Government has for sometime now been reviewing the regulations under which the ATLA is set up and exercises its function. While I am not, of course, privy to their deliberations, the Department of Trade has been closely involved and I have had meetings on this subject first

with John Nott and more recently with John Biffen.

I was, therefore, shocked to be told by John Biffen on Monday that, after consultation with other interested Ministers, including I understand you, he had decided that the proposed new Hong Kong regulations, one of whose effects would be to provide for a right of appeal against the decisions of the ATLA, were not acceptable. The reason lay in another feature of the Hong Kong proposals which would have put British Airways, who are exempt from the need to get an ATLA licence under the present Regulations, on the same footing as all other British Airlines in Hong Kong. John Biffen found this objectionable.

There are several matters here which I feel I must draw to your attention. Firstly, one effect of proposed new Hong Kong regulations would be to correct the present situation whereby the ATLA can frustrate the combined wills of Government here and in Hong Kong. In particular they would make possible the commencement of Laker Airways London Hong Kong air service.

Secondly, the reason for rejecting them is really pure protectionism for British Airways. Under the Civil Aviation Act 1980 we have at last achieved the situation whereby in Britain private sector airlines are treated for Air Transport licensing purposes equally with British Airways. The proposed new Hong Kong regulations are being rejected because they attempt to follow suit.

Thirdly, the more specific reason for John Biffen's decision is, I understand, that British Airways are apprehensive lest under the proposed new regulations the ATLA would take from them a valuable route from Japan via Hong Kong to South Africa and give it to the local airline, Cathay Pacific Airways. This apprehension is surely misplaced. The Hong Kong intention seems to be to operate an air transport licensing system under as nearly as possible the same conditions as apply here. These include ample provision to protect the interests of an incumbent airline which is providing a good service. In any case I am bound to observe that the revenue which British Airways are

2nd July 1981

protecting is a good deal less than the £42 million which is my estimate of the revenue Laker Airways would earn in the first year of operating between London and Hong Kong.

Fourthly, when I called on the Governor in Hong Kong last month the one point in this context on which he lay stress was the need to end the present arrangement whereby an airline wanting to fly between London and Hong Kong needed to apply separately to the Authorities at both ends of the route for a licence. This modification would give Laker Airways all that it needs since the licence which John Nott authorised would suffice by itself.

As you may imagine, as a free enterprise/competition man, I regard the need for an airline to obtain licences before they can engage in competitive business ventures as wrong. In so aggressively free enterprise a society as Hong Kong, I should have expected proposals to be coming forward for the simple abolition of the ATLA. But failing this ideal solution, whatever regulations there are should treat all parties equally and should encourage competition. This is the basis of the law here and I am astonished that Ministers should, for protectionists reasons which seem to me quite insubstantial, object to Hong Kong's following suit. The effect is to undermine John Nott's action last year, itself taken in order to encourage competition.

I understand that the decision has not yet been notified formally to Hong Kong. May I urge that it first be reconsidered. As you will understand I feel very strongly about it, or I would not have presumed to write to you at such length. If you would like me to call on you in order to explain more fully what is involved I am at your service.

I am sending a copy of this letter to John Biffen.

*Kind Regards*

*Heardie Laker.*

*Derosper**NBPN**Paul*PM/81/35PRIME MINISTERAir Services between London and Hong Kong

1. I have seen John Biffen's minute of 10 June to you.
2. I do not quarrel with his general conclusions but have one point on procedure. I can understand his wish to let Hong Kong know that we would still like an appeals procedure, but I do not think this should be put as a formal request. To do so would only lead to the difficulties with the Hong Kong Executive Council that are mentioned in the minute. Our relations with Hong Kong, already difficult, could be further strained. I suggest that the best tactics would be simply to restate our interest in an appeals procedure in departmental correspondence, and to discuss with the Hong Kong authorities possible ways of putting this to the Executive Council. On this basis I can support the proposal.

*C*

(CARRINGTON)

Foreign and Commonwealth Office  
19 June 1981

19 JUN 1984

19 JUN 1984



CONFIDENTIAL

Aerospace.

JS  
cc 720  
HMT  
CDL  
CO

15 June 1981

AIR SERVICES BETWEEN LONDON AND HONG KONG

The Prime Minister has seen and taken note of the Secretary of State for Trade's minute to her of 10 June on this subject.

I am sending copies of this letter to Roderic Lyne (FCO), John Wiggins (HM Treasury), David Heyhoe (Chancellor of the Duchy's Office) and David Wright (Cabinet Office).

MODBA

John Rhodes, Esq.,  
Department of Trade.

Ⓟ



From the Secretary of State

PRIME MINISTER

AIR SERVICES BETWEEN LONDON AND HONG KONG

I am writing to let you know of the obstacles in the way of a Laker service between London and Hong Kong, and of the course I think we should pursue.

British Airways (BA) have been operating on this route for many years. New services have to be licensed both by the Civil Aviation Authority (CAA) here, and by the Air Transport Licensing Authority (ATLA) in Hong Kong. In March 1980 the CAA licensed British Caledonia (BCAL), and was subsequently directed by John Nott, as Secretary of State for Trade, to licence Cathay Pacific (CPA) and Laker. The ATLA licensed BCAL and CPA, but has on two occasions since John Nott's decision rejected Laker's application, on the grounds that current and prospective demand did not justify more than three services. On the second occasion the Hong Kong Government supported the Laker application, but the ATLA is an independent body under a Hong Kong judge and there are no appeals from its decision.

My officials have been exploring with the Hong Kong Government informally and without commitment, ways in which Laker could be brought onto the route. The Hong Kong Government want in any case to review their somewhat archaic air transport regulations, and are prepared on certain conditions to introduce a procedure for appeals against decisions of the ATLA. In that case, if Laker reapplied and was turned down for the third time, the Governor could overrule the ATLA and direct them to licence Laker.

But a price would be paid for such a change. The Hong Kong Government say that the Executive Council in Hong Kong could not be expected to agree to a revision of the regulations to provide

Prime Minister

To note

Am

Noted mt.

(2)



*From the Secretary of State*

for appeals (and thus give HMG the chance of putting pressure on the Hong Kong Government in the interest of United Kingdom based airlines), unless British Airways lose their present exemption from Hong Kong Licensing procedures. It would be unprecedented for the views of the Executive Council on a matter of this kind to be overridden.

Under a power conferred on the Governor by the Hong Kong regulations BA, but only BA, can operate out of Hong Kong without a licence from the ATLA. This exemption was introduced some years ago when there was no competition on air routes into and out of Hong Kong. If we were to reach a "deal", the Hong Kong Government would envisage a transitional period of perhaps a year during which BA's existing routes could not be challenged. But it would thereafter be open to other airlines, notably CPA, to make a case before the ATLA that they should be substituted for BA on routes out of Hong Kong.

Given that the position in Hong Kong is as I have described it, I have to decide whether it is worth losing BA's exemption from the Hong Kong licensing system to get Laker onto the route. The "deal" should enable implementation of John Nott's original decision and reflects our philosophy of competition. It can also be argued that the BA exemption is an anachronism now that BCAL, Laker and CPA are all competing with BA on long-haul international services. Against this it is clear that the three existing services on the route compete strongly with each other. There can be few if any lower fares in the world in terms of pence per mile.

On balance my conclusion is that we should not sacrifice the BA exemption to bring Laker onto the route. I would let the Hong Kong Government know, however, that while we want the BA exemption to remain, we would still like an appeals procedure introduced in Hong Kong. I would tell Sir Freddie Laker in person of my decision and the reasons for it. In coming to this view I realise that some criticism can be expected. But that is so whichever way we decide.

CONFIDENTIAL



*From the Secretary of State*

I am sending copies of this letter to Peter Carrington, Geoffrey Howe and Francis Pym, as well as to Sir Robert Armstrong.

*n. m. Jones*

pp. J.B

(Approved by the Secretary of State  
and signed in his absence)

Department of Trade  
1 Victoria Street  
London SW1H 0ET

10 June 1981

CONFIDENTIAL

17 JUN 1981



UNITED KINGDOM OF GREAT BRITAIN

COMMUNICATIONS

SECRET



*From the Secretary of State*

AEROSPACE  
H  
N

M O'D Alexander Esq  
Private Secretary  
10 Downing Street  
London, SW1

10 February 1981

*Dear Michael,*

LAKER SERVICES TO SHARJAH

In my letter to you of 20 January I said that the Department would be sending official replies to the many letters which the Prime Minister had received from private individuals about Laker's application to start London-Sharjah services.

The Department has now received some 400 such letters and I ...  
enclose, for your files, a copy of the standard reply which we have sent.

*Yours ever,*

*Nicholas McInnes*

N McInnes  
Private Secretary



**DEPARTMENT OF TRADE**  
1 Victoria Street London SW1H 0ET  
Telex 8811074 DTHQ G  
Telegrams Advantage London SW1  
Telephone Direct Line 01-215 -5560  
Switchboard 01-215 7877

---

Your reference

Our reference

Date 3 February 1981

---

Dear

I have been asked to reply to your recent letter, to the Prime Minister.

Laker Airways have applied to the UK Civil Aviation Authority (CAA) for a licence to operate a turn-round service between London and Sharjah. The application will probably be heard within a couple of months. Under UK civil aviation licensing procedures there is provision for a dissatisfied party to appeal to the Secretary of State for Trade against a decision by the CAA. Because of this appellate function of the Secretary of State, it is not possible for the British Government to comment on the merits of applications to the CAA.

In the circumstances I am not in a position to comment further but I can assure you that the CAA's examination of Laker Airways' application will be thorough and objective.

J ANGELL  
Civil Aviation International Relations Division

110 FEB 1981

11 12 1  
9 8 7 6 5 4  
3





Foreign and Commonwealth Office  
London SW1A 2AH

Telephone 01-

*Aerospace*

7

D K Haskell, Esq CVO  
DUBAI

Your reference

Our reference

Date 23 January 1981

MRA 184/547/1

RECORDED IN DEPARTMENT NO. 63

26 JAN 1981

*Dear Mr. Haskell,*

LAKER SERVICES TO SHARJAH

1. I am enclosing the original of the Prime Minister's reply to the Ruler of Sharjah's message of 18 December, together with a copy for your files. I should be grateful if you could arrange for the original to be delivered to the Ruler as soon as possible.

*Yours sincerely,*

*Anne Stoddart,*

Miss A E Stoddart  
Maritime, Aviation and  
Environment Department

cc. C W Roberts Esq CAIR, DOT (without encs.)

*Pirate Office*  
*VB 27/1*



Page 23.  
B MAED for onward transmission  
26/1 ✓

ca PS (G)  
PS / Mr Hurd  
Mr Brasellor  
Mr J Moberly

10 DOWNING STREET

From the Private Secretary

MRA184/547/1

22 January 1981

DEPARTMENT OF SECRETARY NO. 69

MEI  
HKG

26 JAN 1981

Dear Francis,

LAKER SERVICES TO SHARJAH

You will have seen Nicholas McInnes' letter to me of 20 January enclosing a draft reply to the Ruler of Sharjah's message to the Prime Minister of 18 December. The Prime Minister has approved the draft and I enclose the signed text. I should be grateful if you could arrange for its delivery in Sharjah as soon as possible.

I am sending a copy of this letter and its enclosure to Nicholas McInnes (Department of Trade).

Yours ever

Michael Alexander

Francis Richards, Esq.,  
Foreign and Commonwealth Office.



with (6)

10 DOWNING STREET

THE PRIME MINISTER

22 January 1981

Your Highness,

I was grateful for Your Highness' letter of 18 December about Laker Airways' proposal to operate a service between London and Sharjah. I am very glad that your Highness also had the opportunity to put your views on this matter to Mr. Hurd when he visited Sharjah earlier this month.

I appreciate your disappointment at the decision of the independent Hong Kong Air Transport Licensing Authority to withhold a licence from Laker Airways for London-Hong Kong services via Sharjah. Under the Air Transport Licensing Regulations currently in force in Hong Kong these decisions are not subject to appeal. I believe the Hong Kong Government is currently considering whether to revise these Regulations but I am not in a position to predict the outcome of this review and its possible implications for Laker's proposed services.

Laker Airways require a separate licence to operate turn-around services between London and Sharjah. As Your Highness will be aware, Laker Airways' application to start such services will be considered by the United Kingdom Civil Aviation Authority after a public hearing to be arranged during the next two or three months. The Civil Aviation Authority's decision, however, will not necessarily be the final word, since the parties concerned have the right to appeal against a decision by the Civil Aviation Authority

/to the Secretary

to the Secretary of State for Trade. I am sure that Your Highness will understand that in these circumstances Her Majesty's Government cannot comment on the substance of Laker Airways' application. I should nevertheless like to say how pleased I was that Your Highness took the trouble to write to me personally about this, and to assure you that the Civil Aviation Authority will examine Laker Airways' application thoroughly and objectively.

Yours sincerely  
Margaret Thatcher

---

His Highness Shaikh Sultan bin Muhammad Al Qasimi.

File

DSG

cc: D/Trade

Aerospace

22 January 1981

BF for tel.

LAKER SERVICES TO SHARJAH

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I am sending a copy of this letter and its enclosure to Nicholas McInnes (Department of Trade).

M. O'D. B. ALEXANDER

Francis Richards, Esq.,  
Foreign and Commonwealth Office.

AB

LPO



file

cc: Feb  
OT Trade

SUBJECT.

10 DOWNING STREET

cc: Minister  
DPS

THE PRIME MINISTER

22 January 1981

**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 11/81**

Your Highness,

I was grateful for Your Highness' letter of 18 December about Laker Airways' proposal to operate a service between London and Sharjah. I am very glad that your Highness also had the opportunity to put your views on this matter to Mr. Hurd when he visited Sharjah earlier this month.

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Laker Airways require a separate licence to operate turn-around services between London and Sharjah. As Your Highness will be aware, Laker Airways' application to start such services will be considered by the United Kingdom Civil Aviation Authority after a public hearing to be arranged during the next two or three months. The Civil Aviation Authority's decision, however, will not necessarily be the final word, since the parties concerned have the right to appeal against a decision by the Civil Aviation Authority

/to the Secretary *JSS*

to the Secretary of State for Trade. I am sure that Your Highness will understand that in these circumstances Her Majesty's Government cannot comment on the substance of Laker Airways' application. I should nevertheless like to say how pleased I was that Your Highness took the trouble to write to me personally about this, and to assure you that the Civil Aviation Authority will examine Laker Airways' application thoroughly and objectively.

Yours sincerely  
Margaret Thatcher

---

His Highness Shaikh Sultan bin Muhammad Al Qasimi.



*From the Secretary of State*

M O'D Alexander Esq  
Private Secretary  
10 Downing Street  
London, SW1

20 January 1981

*Type for PM's signature: submit with  
original of the letter from the Ruler*

*Dear Michael,*

LAKER SERVICES TO SHARJAH

--- Dubai telegrams 145 and 146 of 21 December (copies enclosed) report a message to the Prime Minister from the Ruler of Sharjah about Laker Airways. I understand that the top copy of the letter has now reached you. You have also referred to us a number of letters on the same subject from United Kingdom residents in the Gulf, stimulated by a "write-in" campaign influenced by Laker.

The Ruler of Sharjah has built a large modern airport, well in excess of his tiny country's requirements and he is keen to attract more services to it. He therefore shares with Sir Freddie Laker an interest in helping to launch the latter's proposed London-Sharjah-

--- Hong Kong service. Paragraph 6 of the enclosed FCO record of Mr Hurd's talk with the Ruler on 7 January further illustrates the strength of the Ruler's interest.

As the Ruler's letter mentions, Laker's application for this service was turned down by the independent Hong Kong Air Transport Licensing Authority (ATLA). This decision was taken despite Mr Nott's decision in June last year to direct the Civil Aviation Authority to grant a licence to Laker, following Laker's appeal against the CAA's earlier rejection of their application. The Hong Kong Government have expressed public disappointment at the ATLA's decision and Mr Nott did so privately to Sir Freddie Laker. However, unlike the position in the United Kingdom, there is no procedure for appeal in Hong Kong against the decision of the Hong Kong licensing authority. The Hong Kong Government are currently considering whether they should up-date their air transport licensing regulations, possibly to include provision for an appeal system. Their officials have had some informal discussions with us but they have not yet decided what they want to do. Any changes which they propose will have to be the subject of recommendations to HMG. We should hear more in a few weeks. It will take time, however, for the details of any revision proposed to be implemented. Meanwhile Laker has decided to apply to the CAA for a licence to commence operations solely on the London-Sharjah sector.





*From the Secretary of State*

The economics of a turn-around London-Sharjah service are quite different from those of a service in which Sharjah would be served merely as an intermediate point on a route to Hong Kong. It does not necessarily follow that because the Civil Aviation Authority have licensed Laker for the latter type of service they will do so for the former. The CAA's public hearings of Laker's application are likely to take place in March. British Airways are objecting. It is possible that either Laker or BA will appeal to the Secretary of State for Trade against the CAA's decision. A final decision might not therefore be available much before the end of June. Meanwhile, my Secretary of State has also to consider an appeal by British Airways against the CAA's decision in October to grant Laker a licence to serve Sharjah on services to Hong Kong. Despite what the Ruler's letter says on this point, Mr Nott did not in fact include the right to pick up and discharge traffic at an intermediate point when he took his decision last June to uphold Laker's appeal for a London-Hong Kong licence.

For legal reasons, it is necessary for Ministers and officials to avoid substantive comment on licensing applications in which my Secretary of State may later be involved in an appellate role. We therefore suggest that in replying to the Ruler of Sharjah, the Prime Minister should avoid any statement about the merits of services by Laker to Sharjah. I enclose a draft reply which has been cleared at official level with the Foreign and Commonwealth Office.

We shall be sending official replies to the many letters from individuals in Sharjah.

I am sending a copy of this letter to Francis Richards (FCO).

*Yours ever,*

*Nicholas McInnes*

N McINNES  
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

His Highness Shaikh Sultan  
bin Muhammad Al Qasimi  
Ruler of Sharjah

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I appreciate your disappointment at the decision of the independent Hong Kong Air Transport Licensing Authority to withhold a licence from Laker Airways for London-Hong Kong services via Sharjah. Under the Air Transport Licensing Regulations currently in force in Hong Kong these decisions are not subject to appeal. I believe the Hong Kong Government is currently considering whether to revise these Regulations but I am not in a position to predict the outcome of this review and its possible implications for Laker's proposed services.

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FM DUBAI 210750Z DEC 65

TO IMMEDIATE FCO

TELEGRAM NUMBER 145 OF 21 DECEMBER

INFO IMMEDIATE DOT ABU DHABI

INFO PRIORITY BAHRAIN DOHA MUSCAT

LONDON-GULF-HONG KONG AIR SERVICES

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  2. SIR FREDDIE LAKER VISITED SHARJAH LAST WEEK AND MET SHAIKH SULTAN. IN STATEMENTS TO THE PRESS, HE APPEALED FOR PUBLIC SUPPORT FOR LAKER AIRWAYS' CASE. I UNDERSTAND THAT AN ACTION COMMITTEE OF PROMINENT FOREIGN ( MAINLY BRITISH ) RESIDENTS OF SHARJAH HAS BEEN FORMED, AND THAT THE PRIME MINISTER IS LIKELY TO BE RECEIVING CORRESPONDENCE FROM IT ALSO.
  3. YOU WILL BE AWARE THAT THE SECRETARIES OF STATE FOR ENERGY AND DEFENCE ARE VISITING THE U A E IN THE FIRST HALF OF JANUARY. NEITHER PROGRAMME AT PRESENT INCLUDES SHARJAH, BUT A CALL ON SHAIKH SULTAN COULD EASILY BE ARRANGED IF MINISTERIAL INVOLVEMENT IN THE ISSUE WERE THOUGHT DESIRABLE. THE DUKE OF KENT IS DUE TO VISIT SHARJAH ( INCLUDING THE AIRPORT ) ON 10 FEBRUARY.
  4. THE DIVISION OF RESPONSIBILITY BETWEEN THE FEDERAL GOVERNMENT AND INDIVIDUAL EMIRATES ON CIVIL AVIATION MATTERS WAS THE SUBJECT OF EXTENSIVE TELEGRAPHIC EXCHANGES LAST SUMMER, BUT WAS NEVER COMPLETELY RESOLVED ( FCO TELNO 167 TO ABU DHABI ). HOWEVER, IF THE FEDERAL AUTHORITIES ARE IN FACT PREPARED TO ENDORSE SHARJAH'S GRANT OF RIGHTS TO LAKER ( PARA 4 OF FCO TELNO 154 TO ABU DHABI - REFERENCES NOT SUBSEQUENTLY RECEIVED HERE ), THIS POINT IS UNLIKELY TO BE CONTENTIOUS. IN ANY CASE, I HOPE THAT THE TONE, IF NOT THE SUBSTANCE, OF ANY REPLY TO SHAIKH SULTAN WILL TAKE ACCOUNT OF WIDER BRITISH INTERESTS IN SHARJAH, INCLUDING BOTH THE DEBTS DUE TO BRITISH COMPANIES FOR PAST PROJECTS AND THE PROSPECTS FOR NEW BUSINESS ARISING OUT OF SHARJAH'S LATEST OIL AND GAS DISCOVERY.
- HASKELL

LIMITED

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DEFENCE D

PS

PS/KPS

PS/MR HURD

LORD BRIDGES

MR BRAITHWAITE

SIR JERAMM

MR JC MOBERLY

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FM DUBAI 210822Z DEC 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 146 OF 21 DECEMBER

INFO IMMEDIATE DOT ABU DHABI

INFO PRIORITY BAHRAIN DOHA MUSCAT

T 243 AA/80 - see  
letter dated 18/12/80

M I P T: LONDON-GULF-HONG KONG AIR SERVICES.

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I WISH TO ADDRESS YOU ON THE SUBJECT OF THE PROPOSED AIR SERVICES OF LAKER AIRWAYS TO SHARJAH, UNITED ARAB EMIRATES.

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MY GOVERNMENT SEEKS NO CONCESSION IN RETURN FOR THE RIGHT OF LAKER AIRWAYS TO OPERATE AIR SERVICES FROM LONDON TO OR THROUGH SHARJAH WITH FULL TRAFFIC RIGHTS AT SHARJAH. SUCH RIGHTS ARE FREELY GIVEN, NOT ONLY BY MY GOVERNMENT, BUT ALSO BY THE UNITED ARAB EMIRATES THROUGH THE MINISTRY OF COMMUNICATIONS.

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HASKELL

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PS/MR HURD

LORD BRIDGES

MR BRAITHWAITE

SIR J ~~GRAHAM~~

MR JC MOBERLY

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1213  
Hoye  
Hura in the afternoon  
to Mr. Haskell  
12/21/81  
RECORD OF A MEETING BETWEEN THE MINISTER OF STATE FOR FOREIGN AND  
COMMONWEALTH AFFAIRS AND THE RULER OF SHARJAH, IN SHARJAH ON  
7 JANUARY 1981

Present

The Hon Douglas Hurd CBE MP  
Mr D K Haskell CVO  
Mr C T W Humfrey

HH Shaikh Sultan bin Mohamed  
al Qasimi

1. Mr Hurd gave Shaikh Sultan an assessment of the current situation in the Iran/Iraq war. Shaikh Sultan feared that if Khomeini and his fundamentalist supporters lost power, they would lose it to the Communists. The masses in the streets controlled the Iranian revolution but were unable to make policy. If Bani Sadr negotiated a settlement with the US on the US hostages, the masses would call for his execution. No solution to the hostage problem was therefore possible until the masses could be controlled. The Communists had been active in recent disturbances. Bani Sadr was a good man whom the West should be careful not to destroy and thereby put the Communists in power.
2. Mr Hurd congratulated Shaikh Sultan on the recent discoveries of oil and gas in Sharjah. Shaikh Sultan said that there were about 8 structures and oil exports would begin in 14 months. There was also a quantity of gas. The UAE Federation was helping Sharjah financially. The recent establishment of an industrial development bank and a real estate bank by the UAE Central Bank would benefit Sharjah.
3. Asked what would happen when the present UAE constitution expired, Shaikh Sultan said that he thought that the constitution should be renewed with only minor changes that would not affect its basic structure. The constitution should then be fixed permanently. The Federal National Assembly would want to discuss the matter, but it had no authority to force decisions on the National Council. Presentationally, although there should only be minor changes, the constitution agreed should be presented as being both new and permanent.
4. Shaikh Sultan said that he had heard that Mrs Thatcher would visit the UAE in April, and Mr Hurd confirmed this. Mr Haskell mentioned the forthcoming visit of the Duke of Kent. He hoped that the Duke could visit Sharjah for lunch and see the airport.
5. Mr Hurd referred to Shaikh Sultan's letter to Mrs Thatcher about air services. He said that the matter was being considered in London but no decision had been reached. We would be sending a reply. Shaikh Sultan complained that some people were trying to damage Sharjah's relations with Britain. He had recently received from the UAE Ministry of Foreign Affairs a communication about debts which it was alleged that Sharjah owed to British companies.

/When he had

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When he had spoken to the companies, they had disclaimed responsibility and said that they were satisfied with the current position. Mr Haskell said that a number of British companies had expressed concern to the Embassy about the debts. Some smaller companies, eg Kennedy & Donkin, had been particularly hard hit as a result of the debts. The matter of the outstanding debts of certain Emirates, not just Sharjah but also Ras-al-Khaimah and Ajman, had been discussed in the UK/UAE Joint Committee. The UAE Ministry of Foreign Affairs had as a result asked the British side to let them have details of the debts. These had been communicated to them. Shaikh Sultan disputed the figures given for the debts. Mr Haskell said that the figures had been collected from the companies themselves. He agreed that the basis on which they had been computed varied. We had not been trying to force action on the matter but simply making the Federal authorities aware of the position. He offered to call on Shaikh Sultan to discuss the matter further. Shaikh Sultan said that he hoped that the new oil discovery would enable Sharjah to establish good relations again with the companies. He had hoped that British/Sharjah relations would be close. Mr Haskell pointed out that the Duke of Kent's proposed visit to Sharjah demonstrated our willingness for close relations with Sharjah. Mr Hurd said that we would not wish to handle the problem in a way which caused difficulties for Shaikh Sultan. He would discuss this with our Embassy.

6. Shaikh Sultan alleged that the British Embassy was against Laker Airways being allowed to come to Sharjah. Mr Haskell said that this was not so. A decision on the matter had yet to be taken in London. Shaikh Sultan said that people seemed to want to give the traffic rights to British Caledonian and Dubai. Laker wanted to come to Sharjah but the British Government would not designate more than two carriers. If British Caledonian got rights, then Laker could not have them. British Caledonian was not taking on passengers in Dubai but it would be given them so as to block Laker coming to Sharjah. Mr Haskell said that this was not so. Providing Laker got traffic rights to fly to Hong Kong, then they had priority over British Caledonian in Dubai and Sharjah. Mr Hurd stressed that the British Government had no wish to discriminate against Sharjah or between the Emirates. Shaikh Sultan said that he wanted Britain to give Sharjah a chance in this matter.

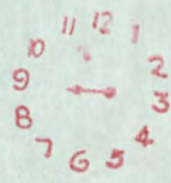
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Sir J Graham  
Mr J Moberly  
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21 JAN 1981



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TO IMMEDIATE FCC

TELEGRAM NUMBER 146 OF 21 DECEMBER

INFO IMMEDIATE DOT ABU DHABI

INFO PRIORITY BAHRAIN DOHA MUSCAT

M I P T: LONDON-GULF-HONG KONG AIR SERVICES.

1. FOLLOWING IS OPERATIVE PART OF LETTER:

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HASKELL

LIMITED

MAED

MED

HKGD

ESSD

DEFENCE D MR JC MOBERLY

PS

PS/LPS

PS/MR HURD

LORD BRIDGES

MR BRAITHWAITE

SIR J CRAWFORD

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LONDON-GULF-HONG KONG AIR SERVICES

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SIR JERAMM

MR JC MOBERLY

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PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T. 243 AA/80

سلطان بن محمد القاسمي

حاكم اماره الشارقة

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Sultan Bin Mohamed Al-Qasimi

Ruler of Sharjah

No. MS/kg

الرقم

Date 18th December 1980

التاريخ

The Right Honourable  
Margaret Thatcher P.C., M.P.  
Prime Minister  
10 Downing Street  
London SW1  
United Kingdom

Dear Prime Minister,

After Greetings:

I wish to address you on the subject of the proposed air services of Laker Airways to Sharjah, United Arab Emirates.

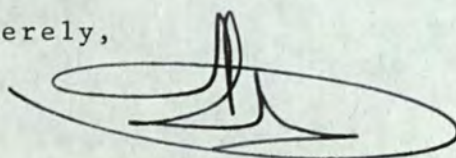
It was with great pleasure that I learned of the decision of the United Kingdom Secretary of State for Trade, Mr. Nott, that Laker Airways should be licensed to operate air services on the route London - Sharjah - Hong Kong with the right to carry traffic to and from Sharjah. I was therefore disappointed when the authorities in Hong Kong refused permission for this service and I hope that early steps can be taken to alter their decision. though I understand that the situation is complicated.

Meanwhile, I am told that Laker Airways are prepared to commence in the near future air services on the London - Sharjah sector only of this route. I trust that the United Kingdom authorities will look favourably on this opportunity for the development of economic relations between our countries.

My government seeks no concession in return for the right of Laker Airways to operate air services from London to or through Sharjah with full traffic rights at Sharjah. Such rights are freely given, not only by my government, but also by the United Arab Emirates through the Ministry of Communications.

I should be pleased if you could let me have the benefit of your views on this subject.

Yours sincerely,



Sultan bin Mohammed Al-Qassimi  
Member of the Supreme Council of the United Arab Emirates  
Ruler of Sharjah

[Mr. Pym.]

There is a change of heart in the Soviet Union we shall review the decision.

**Mr. Ernie Ross:** Does the Secretary of State accept that in a week when the House debated the Brandt report, which clearly outlined the disparities between North and South and showed that hundreds of millions of people exist in poverty, his statement today that Britain will spend £16 million on a weapon that will never be fired will be found particularly offensive?

**Mr. Pym:** If we do not protect ourselves adequately, and if we do not have an adequate shield, freedom and democracy will not be continued into the future. I also point out to the hon. Gentleman the remarkable fact that the Soviet Union pays scant regard to the needs of other countries. It makes a very small contribution in terms of foreign aid. It will supply weapons if necessary, but practically no foreign aid. We should also take that point into account. It is all the more reason to make sure that we are adequately defended. If we are not, the whole world may be taken over by the Soviet Union, and we can imagine the fantastic mess that would result.

**Mr. Ron Brown:** The Government are great supporters of secret ballots. May I take it that the Minister will also organise a ballot of the people who live in areas surrounding these missile sites, or is that stretching democracy too far?

**Mr. Pym:** As the hon. Gentleman knows, that has never been the practice, nor would it be sensible to take decisions on major matters of national and Alliance security on the basis of local polls. People can express opinions, but decisions on national security—a concern that everyone shares—must be taken by national Governments, and the House understands that.

**Mr. Frank Allaun:** On a point of order, Mr. Speaker. It is a long-established custom in the House that if a question has been asked previously hon. Members cannot table the same question again. The Table Office forbids it. But this afternoon my hon. Friend the Member for Eton and Slough (Miss Lestor) asked a supplementary question. I have been a Member of the House for a fairly long time, and I have never known a supplementary

question to be barred because it had been asked previously. May I ask for your guidance on this point, Mr. Speaker?

**Mr. Speaker:** It is quite simple. I am willing to make another statement tomorrow when I have looked at the matter again, but if a question is not permissible at the Table Office it is not permissible as a supplementary question. It is as simple as that. I shall look at the matter further in case I need to correct myself.

**Mr. Dalyell:** Further to that point of order, Mr. Speaker. When you look at the matter further tomorrow, will you take into account that question No. 32 on the Order Paper on Diego Garcia implied considerations of troop movements?

**Mr. Speaker:** That point has not escaped me.

#### AIR SERVICES (LONDON-HONG KONG)

**The Secretary of State for Trade (Mr. John Nott):** With permission, Mr. Speaker, in view of the widespread interest in the matter, I should like to make a statement about the decision that I have taken concerning air services between London and Hong King.

Last year three airlines, British Caledonian, Laker and Cathay Pacific, a Hong Kong-based airline, applied to the Hong Kong Air Transport Licensing Authority and the Civil Aviation Authority for licences to operate on the London-Hong Kong route in addition to British Airways. At present, British Airways provides the only direct service, although there are, of course, already a large number of services between Hong Kong and other European cities.

Both authorities heard evidence separately on these applications. In December the Hong Kong authority licensed British Caledonian and Cathay Pacific, but restricted their frequency of service to four and three flights a week respectively. In March this year, the Civil Aviation Authority announced its decision to license only British Caledonian.

The two applicants who were unsuccessful before the Civil Aviation Authority submitted appeals to me under the provisions of regulation 16 of the Civil Aviation

Authority Regulations 1972. I also received a number of representations, including one from the Government of Hong Kong, that under the powers conferred on me by section 4(3) of the Civil Aviation Act 1971, I should direct the authority to license Cathay Pacific in the interests of the United Kingdom's relations with Hong Kong.

I have given this matter the most careful consideration, in particular against the criteria set out in section 3 of the Act, and I found myself in disagreement with the Civil Aviation Authority in a number of ways. In particular, I was convinced by Sir Freddie Laker's contention that there is a large untapped market for this route if fares are pitched at the right level. In his evidence he described this market as consisting of

"the forgotten men and women at the bottom end of the market"

who might wish to fly if they could afford to do so. I find myself in agreement with this dynamic approach to civil aviation, and in my view it should be acknowledged.

I also felt that the authority had placed too much emphasis on the economics of the proposed additional services in the short term, and too little on the benefits to the development of the United Kingdom civil aviation industry generally of choice of service and competition on a route such as this—in particular, competition with other non-British airlines.

I felt that it was in the interests of airline passengers that they should be offered a wider choice of service than exists at present, that it would be unreasonable to expect British airlines, within the meaning of section 3(1) of the Act, to be granted exclusive rights when Cathay Pacific are based in Hong Kong and command much local loyalty, and can expect to draw traffic from their network of regional services.

I concluded therefore that the substantial new traffic likely to be generated over a period by a wider variety of services would offer a reasonable prospect that four operators could, over a period, achieve an economic return on this route.

I have accordingly upheld the Civil Aviation Authority's decision to license British Caledonian but, in addition, have directed it to reverse its decisions on the other two applications and to issue licen-

ces in the same terms to Cathay Pacific and Laker, but without prejudice to the former's existing rights between Hong Kong and Bahrain. The authority and the other parties to the appeals are being informed of my decision today.

As I have reached this decision by the normal appeal criteria, I do not intend to issue a political direction under section 4—and I have informed the Hong Kong Government accordingly.

I believe that my decision will be welcomed by airline passengers generally, and in Hong Kong, where freedom to compete is one of the cornerstones on which the economic success of Hong Kong has been built. I hope, therefore, that the Government of Hong Kong will lend support to the applications which Laker may now wish to renew to the Hong Kong Air Transport Licensing Authority and to any applications which British Caledonian and Cathay Pacific may wish to make to increase the frequency of their services, should they believe it is in their interests to do so.

**Mr. John Smith:** I am sure that the Secretary of State will be aware that in this extraordinary and surprising decision he has effectively overturned a CAA licence decision. Does he recollect that, in recommending the Civil Aviation Bill to the House recently, he argued that a Secretary of State should play less of a role in licence applications and that he should give greater scope and authority to the CAA? In this early decision on a licence application, is he not totally confounding the policy that he says underlines the Bill?

Is he aware that in the evidence that was given at great length to the CAA at the licence hearing nearly everyone except Laker argued that the market was limited in scope and demand? The CAA was clear in its decision that this was not a North Atlantic situation. It said in crystal clear terms that on the evidence that was given it believed that too many carriers would destroy the route and would not provide a proper service to the public.

Does the right hon. Gentleman realise that if he takes a different view from the body that was established to judge these matters on the same evidence he undermines any confidence in its future decisions? Has he accepted evidence from

[Mr. Smith.] any other body that was not before the CAA when the licence decision was taken? Has he received any further evidence from Hong Kong or from any of the other interested parties?

The right hon. Gentleman has effectively countermanded the CAA's decision, and in the forthcoming Bill he is depriving himself of powers to decide a general policy for the authority to follow. There will be total confusion about British civil aviation licensing policy, on which the Government's view is to be deduced from random decisions made by the Secretary of State rather than by parliamentary approval as in the past. In this circumstance, has not the right hon. Gentleman totally undermined the process of civil aviation licensing in Britain?

If the right hon. Gentleman feels that there were some other matters that the CAA should have taken into account but which it did not, surely the proper course would have been to refer those matters back to the CAA for further consideration, which would be fair to all those whose interests are involved.

**Mr. Nott:** It is true that in this case, having studied the same evidence as the CAA, I came to a different conclusion. That is the purpose of the appeal procedure. The change that I am making in the new Bill is a major one in the sense that I am removing ministerial guidance and placing within the Bill the criteria on which the CAA will operate in future. I am keeping an appeal procedure. In that respect the position will remain exactly the same. There was nothing extraordinary or new about using the appeal procedure.

I did not take into account the North Atlantic route in arriving at my decision. I arrived at it purely on the evidence submitted to the CAA and on the basis of the evidence submitted by the parties on the various submissions. I took no evidence into account other than that contained in the appeal procedure and in the original submissions.

There is no confusion about the policy. Section 3 of the 1971 Act is continuing in the new Bill in more or less the same form. It provides a series of objective criteria to avoid arbitrary political de-

isions. I have not made an arbitrary political decision. My decision was taken entirely in accordance with existing appeal arrangements. I have exercised my judgment in an entirely proper way.

**Mr. Smith:** The right hon. Gentleman referred to arbitrary political decisions. If a Secretary of State comes to a totally contrary decision from the Civil Aviation Authority, and without taking any further evidence or bringing to bear any further consideration overrules the authority, is that not an arbitrary political decision? If it is not, what is?

**Mr. Nott:** There is no point in having an appeal procedure if it is not used. I found myself convinced by Laker's argument that there was a large untapped market for an air service that was safe, efficient and cheap. I favour a dynamic approach to civil aviation. I believe that "the forgotten men and women at the bottom end of the market" will fly on holiday to the Far East if fares are at the right level. It is in that belief and on that judgment that I have come to my decision.

**Mr. Anthony Grant:** Is my right hon. Friend aware that the CAA is not God Almighty, and that he is entitled to reverse its decision if it is in the national interest to do so? Is he further aware that any stimulus to competition on this important route will be welcomed by the air traveller, especially by the business air traveller? Is he satisfied that this will not lead to such cut-throat competition as might cause bankruptcies or financial failures that would be gravely damaging to the travelling public?

**Mr. Nott:** I am making no judgment on the timing and frequency of the flights, which the four operators must decide for themselves. How often each airline decides to fly the route, or whether it decides to fly it, must be for its economic judgment. As long as unforeseen circumstances do not arise, I believe that all four carriers should be able to operate profitably on the route. In the end it will be the market that decides. The operators that have sought to fly the route must seek the additional traffic, find it and tailor their operations to the market as it develops. That is what business is all about.

**Mr. Donald Stewart:** Is the Secretary of State aware that his decision will mean that no longer will the CAA be regarded as the arbitrator of licensing and that it will be regarded as a stage in applications until the appeal goes to the Minister? That is the inevitable effect of the decision that he has taken.

Is the right hon. Gentleman further aware that his decision will cause great alarm in Scotland as the British Caledonian operation was tied up with the installation of the aero-engineering works at Prestwick, which will not now be a viable proposition?

**Mr. Nott:** I do not believe that the right hon. Gentleman's latter statement is correct. I have read a statement made by Mr. Kelvin Kellaway, the managing director of the plant in Scotland to which the right hon. Gentleman referred. I believe it to be an accurate report. On Friday he was alleged to have dismissed the fear that the right hon. Gentleman has enunciated. He said that

"the plant had been planned before British Caledonian was awarded the Honk Kong licence. The possible loss of work—about 6 per cent. of the total expected business—was easily within the business fluctuations forecast."

That is what he is reported to have said. I have no reason to believe that that is an inaccurate report of his views.

**Mr. Hordern:** My right hon. Friend will know that I am in favour of free competition and the free market. However, does he consider that the system is adequate that allows the Civil Aviation Authority to grant a licence, upon which substantial investment subsequently takes place, which decision can then be revoked by ministerial judgment? Is there any useful purpose in those circumstances in allowing the process of the CAA to grant a licence?

**Mr. Nott:** It is desirable to have a licensing procedure because it enables all the facts to be considered by an independent body. That is what happened in this instance. To end the licensing procedure and to make every decision subject to ministerial decision, without the objective criteria that are legally based in the Act, would lead to one political decision after another.

I favour a continuation of the objective legal criteria that are contained in the 1971 Act, and that we are continuing in

the new Bill, so that politics are, as far as possible, removed from the process.

In deciding the appeal I have made a judgment that is based purely on the evidence presented to the CAA. We could get rid of the appeal procedure, but I do not think that that would be sensible as ultimately aviation policy must be subject to a judgment by the Government of the day on the basis of the criteria that are set out in the Act.

**Mr. Sheerman:** Is the right hon. Gentleman aware that many of my constituents may feel that it is fantasy to believe that competition will see those at the bottom end of the market flying to the Far East for their holidays? Bearing in mind the present levels of unemployment, they will be lucky to go to Scarborough.

Has the right hon. Gentleman considered the nature of a policy that allows a Minister to interfere with the decisions of the CAA? I remind him that his hon. Friend the Under-Secretary of State for Trade repeatedly assured us in Committee when we were discussing the Civil Aviation Bill that it was important for the CAA to have a more independent role so that the Government would not interfere continually with route licensing, and that the CAA was to be trusted to be an independent arbiter. Many people in the industry will be appalled at this decision, especially in the light of the Government's stated intentions. I refer the right hon. Gentleman to those many pages where this attitude was spelt out.

Is the Secretary of State satisfied that this will produce a safe, efficient and cheap airline industry? Many of us in this House are worried about the safety aspects of competition. Sometimes corners are cut and people are put at risk.

**Mr. Nott:** All the safety aspects are laid out in the Act, and clearly they are of overriding importance. The Secretary of State, in deciding the appeal, and the CAA in considering applications, have to act in accordance with the 1971 Act.

On the question of the ability of the hon. Gentleman's constituents to travel to the Far East, may I tell him that Hong Kong is just over 6,000 miles from here; Edinburgh—which is the right hon. Gentleman's constituency—is nearly 400 miles away. At present a sleeper journey from London to Edinburgh costs almost £50.

[Mr. Nott.]

In the submissions to the CAA, most of the applicants were suggesting a single, one-way fare to Hong Kong, at the lower end of the scale, of between £100 and £150. The present lowest return APEX fare is £400. He is saying that his constituents will not be able to afford the fare. On the basis of the evidence submitted, it is not much over double what it now costs to go on the sleeper journey to Edinburgh. I believe it costs more than £100 for his constituents to go on their holidays in Spain.

**Mr. McCrindle:** Would the Secretary of State accept from one who is a believer in competition in aviation that there are several reasons to question whether the maximum potential foreseeable traffic on the London-Hong Kong route can conceivably justify four airlines flying it? In coming to his decision, did he have occasion to look across the Atlantic to see the results of the deregulation policy introduced a few years ago in the United States and note the plunge in profitability of some of the airlines there, as a result of which many of them are on the verge of bankruptcy? Would he not agree that if that were to be the result of his decision it could not conceivably be in the long term interests of the business or domestic traveller?

**Mr. Nott:** Clearly if that were the result, it would not be to the advantage of their airline operators or the passengers. I think that is an indisputable fact.

May I remind my hon. Friend that similar gloomy predictions about competition in world aviation were made before the arrival of Skytrain on the North Atlantic? In the year following the arrival of Skytrain on the North Atlantic, which was in 1978, British Airways passenger revenues on the route exceeded all previous records. Pan Am and TWA had an equally good year.

May I remind my hon. Friend of what happened on the North Atlantic? I accept that at present the airlines are not going through a profitable phase. That, overwhelmingly, in the current period is because of massive increases in aviation fuel costs. In 1979 airline passenger growth rose by 9 per cent. over 1978. The current problems of the airlines are the problems of rising aviation fuel costs and other costs. I do not think that we

can decide a medium-term and long-term aviation policy on the basis of short-term criteria. If we are frightened for the future, we shall never have the right aviation policy.

**Mr. Gregor MacKenzie:** Is the Secretary of State aware that by effectively countermanding the decision taken by the CAA he has succeeded in pleasing no one because the three airlines concerned could not operate viably on this route? I am ignoring the Secretary of State's geographical error when he talked of taking a sleeper train to Edinburgh. It is a pity he did not take a sleeper train to Glasgow to consider the effect on the employment prospects of the people who work for British Caledonian in the Strathclyde area, which already suffers from exceptionally high unemployment. We hoped that that was a factor he would take into consideration. We all regret that he seems to have ignored it completely.

**Mr. Nott:** I do not think that this appeal which I was deciding was, by its very nature, one in which I would please everyone. I certainly accept that this decision on appeal will not please all the airline operators, but I believe it will greatly please future airline passengers.

My duty under the Act is to weigh the interests of the airline passenger with those of the airline operator. On the evidence submitted on the appeal—aviation fuel costs have of course risen since then—we are talking about extremely attractive fares at the lower end of the scale.

I am not instructing the airlines how many flights to fly; I am not telling them what frequency they should have. British Airways now have seven flights to Hong Kong a week. I am not saying how many flights British Caledonian or Laker or Cathay Pacific should fly. That is up to them. They must make their own economic choices. I believe that this route will throw up a large untapped market of future air travellers. That is why it is important. It is the only cabotage route, the only international route, on which we have control and are able to make a decision. I believe that there are great prospects on this route over the long term. I think that the CAA took too short term a view in this case.

**Mr. Trotter:** Does my right hon. Friend see extra traffic developing here from the

whole of the Far East area which could be to the interests of all the operators on this cabotage route? Is the practical consequence of his decision that both British Caledonian and Cathay Pacific can operate immediately, whereas Laker, in practical terms, must obtain the approval of the Hong Kong Government?

Are there any implications here for the future? Is there any possibility of its leading perhaps to more competition on routes nearer home on which the fares are even more outrageous than those on the sleeper route to Glasgow?

**Mr. Nott:** I think I had better leave other routes alone for the present. Sixth freedom carriers are fairly numerous on this route—Swissair, Lufthansa, Air France, KLM, Singapore Airlines, Malaysian Airlines, Thai International and Air India.

I believe that there is scope—I cannot say how great it is—in attracting business to British airlines on the Hong Kong—London route. I want British airlines to compete as effectively as possible with other foreign airlines. That is the whole basis upon which I am instructed under the Act to pursue the policy.

I cannot tell how much diversion there will be, but I believe that there should be a considerable amount as a result of this decision.

**Mr. David Steel:** Has not the Secretary of State admitted in both his statements and his replies to questions that he has, in effect, overruled the CAA by bringing his political view of the development of aviation to bear on exactly the same evidence? If so, is he not directly intervening ministerially in the decisions of a statutory body and therefore virtually setting aside its role? What is its role to be in future licensing?

**Mr. Nott:** I have not taken a political view in any way. I deny that suggestion completely. I have looked at the evidence which was presented to the CAA on the applications. I have looked at the appeal papers and I have made a judgment about this route based on the evidence that was given to the CAA. It was not a political decision. In this case, under the 1971 Act, I acted in an appeal capacity, in a quasi-judicial capacity, and it was solely in that capacity that I took this decision.

**Several Hon. Members** *rose*—

**Mr. Speaker:** I propose to call four more hon. Members on either side, which I think will give a good run.

**Mr. Tapsell:** Is my right hon. Friend aware that, whether or not events prove that there is room for three new airlines on this route, there will be much satisfaction at his decision to overrule the CAA and that if he had sustained his decision to exclude Cathay Pacific from the route there would have been deep resentment in Hong Kong—one of our best potential export markets—where there has been a feeling of resentment over many years that air traffic rights in Hong Kong have been used by Britain to the disadvantage of Hong Kong as a form of what I have heard described as “old-fashioned colonialist exploitation”? Should not that last point weigh with the Opposition?

**Mr. Knott:** I am grateful to my hon. Friend for making that point. Of course, I was asked by the Government of Hong Kong, given that that was their view, to make a political direction under section 4 of the Act. I rejected that application in favour of a decision under section 3 of the Act, because there is a large market here which all four airlines, over a period, can make economic if they go out and really sell their business to the general public at what will be a wider choice of, and at lower, fares. What my hon. Friend said about the feelings in Hong Kong is true.

**Mr. Harry Ewing:** Is the Secretary of State aware that his decision appears to be based on no more than the report that Freddie Laker said that there were more passengers available?

Is the Secretary of State aware that the Scottish council for development in industry, as well as British Caledonian Airways, says that the right hon. Gentleman's decision will cost a substantial number of jobs in the Prestwick area? The Secretary of State for Scotland claimed that his personal intervention on another aircraft matter caused the creation of jobs. In this instance, is it the case that the Secretary of State either did not intervene, or intervened and was merely brushed aside by the Secretary of State for Trade?



**Mr. Nott:** I note the hon. Gentleman's view that this decision will cost a number of jobs. However, British Caledonian is not operating this route at present. It is due to start operating the route in August. If the hon. Gentleman is talking about future jobs, that is a judgment for British Caledonian to make. I believe that British Caledonian is likely to fly this route. The frequency and the timing with which it does so is entirely a matter for it, based upon its own economic judgment of how it can make this route pay.

**Mr. Onslow:** Will my right hon. Friend underline the fact that he has not withdrawn any licence from British Caledonian in the way which has sometimes been suggested and that there would be general disappointment among British Caledonian's many friends in this House if its management took the view that it could not compete in this situation which my right hon. Friend has created?

Before the Civil Aviation Bill comes back to the House, will my right hon. Friend take another look at the draft guidelines which have been linked with the Bill? If he finds that they do not reflect the same dynamic approach which his decision today indicates, will he change them so that they do reflect it?

**Mr. Nott:** I thank my hon. Friend for his remarks. As he says, no one is withdrawing a licence already granted to British Caledonian. It was granted a licence by the CAA and I am upholding that decision. [HON. MEMBERS: "Oh".] That is surely correct. The right hon. Member for Lanarkshire, North, (Mr. Smith) is entitled to be a protagonist for one airline. I understand that. If he had read the evidence, he would know that there were protagonists for all the airlines.

Unless I am mistaken, the existing draft guidelines relate to the 1971 Act. The CAA has not yet issued any guidelines in connection with the Bill which will come before the House and which will change the basis of the policy. Certainly I shall be looking with great interest at any guidelines which the CAA may decide to issue in relation to the Bill when it becomes an Act.

**Mr. Ogden:** As the Government were elected to provide competition, those

outside the House who put the Government in office should not complain if he does so. Will he deal with a practical point? He knows from experience that Hong Kong has only one international airport; we have several. Will he use his influence to persuade the operators, especially the tour or leisure operators that the United Kingdom end of the route does not have to be only Gatwick or Heathrow; it should also be the Midlands, the North-East or Scotland. That is where the key to the leisure traffic lies.

**Mr. Nott:** I very much agree with what the hon. Gentleman has said. Of course, we want the airline operators to use the widest number of regional airports in attracting the kind of traffic which I believe is available for the Hong Kong route. The question whether the traffic should go from regional points to Hong Kong or from regional points via London to Hong Kong, is important. I agree with the hon. Gentleman's general point that there is a broad market in the United Kingdom. Of course, I should like to see the tour operators attracting people from all round the United Kingdom with what will be lower fares and a greater choice of service.

**Mr. Speaker:** Mr. Kenneth Warren.

**Mr. Warren:** It is so nice to have the name correct, Mr. Speaker. Does my right hon. Friend appreciate that I thoroughly applaud his decision and trust it will mean that he will have the same progressive attitude towards forthcoming decisions on cheaper air fares to Europe? May I press him further? Bearing in mind that he does not want to use the section for political direction, which he rejected, will he say precisely what negotiations he had with the Hong Kong Government to make sure that Laker is allowed to operate out of Hong Kong?

**Mr. Nott:** I have not had any negotiations with the Hong Kong Government. The Hong Kong licensing authority operates independently of the Hong Kong Government. I merely said in my statement that, if Sir Freddie Laker decided that he wished to reapply to the Hong Kong licensing authority, I should hope that the Hong Kong Government would support that application—I cannot say more than that—and that they would grant it. It is up to Sir Freddie Laker to

decide whether he wishes to reapply. Naturally I hope that he will, but the decision is for him.

**Mr. Foulkes :** Surely the Secretary of State appreciates that if British Caledonian take two DC10s out of service it will pose an immediate threat to the future of Caledonian Airmotive, and the forgotten men and women at the bottom of the pile will not get jobs. They could not fly even to Luton, let alone Hong Kong. Does the right hon. Gentleman accept that the Secretary of State for Scotland has, once again been overruled and slapped in the face on this issue? Will he perhaps advise the Duke of Edinburgh, who is officially to open this plant on 3 July, what he can say about the future of jobs at Caledonian Airmotive?

**Mr. Nott :** I do not share the hon. Gentleman's view of British Caledonian. I think that it is an excellent airline. It can and will compete on this route. I do not understand why so many members of the Opposition feel that British Caledonian is uncompetitive. I am not instructing British Caledonian about how often it should fly. I am merely upholding the CAA's decision that it should be allowed to fly. That is perfectly correct.

I read in the newspapers that British Caledonian has purchased two DC10 aircraft for this route. If it did so before a decision was taken on the route, they cannot be my responsibility. I believe that British Caledonian will want to fly this route and that it will fly it successfully. There is a very large untapped market here. In due course, the four airlines will be profitable on this route.

**Mr. Geoffrey Johnson Smith :** On the question of the purchase by British Caledonian of two DC10s, will my right hon. Friend confirm that as far as he knows that was done without a nod and a wink from his own Ministry, but on the initiative of British Caledonian, and not in expectation of getting the route which was awarded to it by the CAA on the basis that there would be two carriers? Will he take it that Government supporters fully understand the philosophy that guided his decision and are friends not only of competition, but of British Caledonian with respect to the part that it has played in private aviation in this country? Will not my right hon. Friend need to say rather more than he has to-

day about the reasons that led him to believe that the route to Hong Kong can support four airlines as opposed to two? Does it not take considerable investment for an airline to support any number of flights, be it one a week or two a week?

**Mr. Nott :** I think that my hon. Friend will find the evidence submitted to the Civil Aviation Authority of great interest. Laker Airways and British Caledonian operate from Gatwick. I believe that there is a large, untapped market. Many "men and women at the bottom end of the market"

will fly here if they are given the opportunity to do so. I do not share the pessimism or belief that the world airline market is static. I believe that it is dynamic. British airlines must go out and capture the market in competition with other airlines. I do not share the negative attitude to airline competition. Having read the evidence, I believe that I am justified in taking that view.

**Mr. Dalyell :** The Secretary of State taunted my right hon. Friend the Member for Lanarkshire, North (Mr. Smith) and other hon. Members when they argued in favour of British Caledonian. However, is it not equally true that he has been the protagonist of Laker Airways? The Civil Aviation Authority said in black and white that it believed that Laker Airways had failed to make a convincing case for a licence. In those circumstances, what is the purpose of having the CAA?

**Mr. Nott :** In return, may I ask the hon. Gentleman what the purpose of an appeal procedure is if it is not used in such a case as this?

**Mr. Maxwell-Hyslop :** If my right hon. Friend's decisions are consistent rather than capricious, will he apply the same principles as he has enunciated today to another greatly abused cabotage route on which excessive fares are charged for a poor service? I refer to the route between the United Kingdom and Gibraltar.

**Mr. Nott :** If airline operators submit fresh applications for that route, the CAA will examine them under the existing licensing system. Those who object to its decision are free to appeal to me. I shall make a decision on the facts contained in those applications. If my hon.

[Mr. Nott.]

Friend knows of any operator that is interested in that route, I hope that he will encourage it to apply.

**Mr. Clinton Davies:** Is the right hon. Gentleman aware that the appeals procedure exists for him to review the evidence in a quasi-judicial capacity and not—as has been the case—in a political capacity? What evidence is there, in contrast to the findings of the CAA, to show that there is a vast, untapped market? Will he draw our attention to the specific evidence that he has relied on?

Has not the right hon. Gentleman totally undermined the authority of the CAA? Not only is the finding on the evidence in complete conflict with the findings of the CAA, but he has undermined any previous definition of policy. Will he bear in mind that the CAA and the Hong Kong authorities conclusively found that that route would not bear four carriers? Indeed, they concluded that only two carriers should be maintained. Why did he not remit the issue to the CAA so that it could consider the evidence about which he had expressed anxiety and thus ensure that justice was done?

**Mr. Nott:** I founded my decision on appeal on the evidence that was presented to the CAA and on the appeals that were submitted to me. On appeal, I am entitled to take a different view from the CAA about the evidence. I did so. As the hon. Gentleman would have wished, the process was handled as a quasi-legal procedure.

As the hon. Gentleman made a political charge, I shall conclude with a political point. If the attitude, characterised by the hon. Gentleman's remarks, were to prevail, it would be almost as expensive to travel from Westminster to Hackney Marshes as it is to travel from Westminster to Hong Kong. I believe in a dynamic market. The route provides great opportunities. Over a period, the four operators will take advantage of those opportunities. That will be of great benefit to airline passengers, because it will mean lower fares and a wider choice.

## CONCESSIONARY TELEVISION LICENCES FOR PENSIONERS

4.56 pm

**Mr. David Winnick** (Walsall, North): I beg to move,

That leave be given to bring in a Bill to provide for pensioners living by themselves to receive concessionary television licences in line with the concessions already available in old people's homes and warden controlled accommodation.

I wish to bring in a Bill to legislate on the need to introduce a concessionary television licence fee for retired pensioners who live on their own, in their own homes. Previous attempts have been made to bring in such legislation. Whether or not my present attempt succeeds, I remain confident that sooner or later the concession will be provided. No one is likely to contradict the fact that many retired people want this concession.

At present, some elderly people live in communal or sheltered accommodation and pay only 5p for their television licence. When my right hon. Friend the Member for Leeds, South (Mr. Rees) was Home Secretary he extended the concession and allowed the communal facilities to be outside the boundary of a group of dwellings. The ground floor of a block of flats for the elderly may contain accommodation of a communal type. On that floor, the pensioners would pay only 5p. However, those living in other flats in the same building would have to pay the full television licence fee. Those retired people who do not share that facility or concession are not critical of the concession, but wish to share it. I believe that it is right that retired people who live in their own homes should be eligible for such a concession.

The present television licence fee is not excessive. One must consider the amount of programmes that are provided and the need to ensure that the BBC does not have to rely on advertising. I am not criticising the amount of the licence fee.

**Mr. Tim Eggar** (Enfield, North): Why not advertising?

**Mr. Winnick:** I do not wish to discuss that issue. It was debated last December, and I expressed my views at that time. Although the amount of money involved in licence fees for colour televisions and for black and white sets may not seem

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STATEMENT BY THE SECRETARY OF STATE FOR TRADE,  
THE RT HON JOHN NOTT MP, HOUSE OF COMMONS, TUESDAY 17 JUNE

### HONG KONG-LONDON AIR SERVICES

With permission, Mr Speaker, in view of the widespread interest in the matter, I would like to make an oral statement about the decision I have taken concerning air services between London and Hong Kong.

Last year three airlines, British Caledonian, Laker and Cathay Pacific, a Hong Kong based airline, applied to the Hong Kong Air Transport Licensing Authority and the Civil Aviation Authority for licences to operate on the London-Hong Kong route in addition to British Airways. At present British Airways provide the only direct service, although there are of course already a large number of services between Hong Kong and other European cities.



Both Authorities heard evidence separately on these applications. In December the Hong Kong Authority licensed British Caledonian and Cathay Pacific, but restricted their frequency of service to four and three flights a week respectively. In March this year, the Civil Aviation Authority announced its decision to licence only British Caledonian.

The two applicants who were unsuccessful before the Civil Aviation Authority submitted appeals to me under the provisions of Regulation 16 of the Civil Aviation Authority Regulations 1972. I also received a number of representations, including one from the Government of Hong Kong, that under the powers conferred on me by Section 4(3) of the Civil Aviation Act 1971, I should direct the Authority to license Cathay Pacific in the interests of the United Kingdom's relations with Hong Kong.



I have given this matter the most careful consideration, in particular against the criteria set out in Section 3 of the Act, and I found myself in disagreement with the Civil Aviation Authority in a number of ways: in particular I was convinced by Sir Freddie Laker's contention that there is a large untapped market for this route if fares are pitched at the right level.

In his evidence he described this market as consisting of "the forgotten men and women at the bottom end of the market" - who might wish to fly if they could afford to do so. I find myself in agreement with this dynamic approach to civil aviation and in my view it should be acknowledged.

I also felt that the Authority had placed too much emphasis on the economics of the proposed additional services in the short term, and too little on the benefits to the development of the United Kingdom civil aviation industry generally of choice of service and competition on a route such as this - in particular competition with other non-British airlines.



I felt that it was in the interests of airline passengers that they be offered a wider choice of service than exists at present, that it would be unreasonable to expect British airlines, within the meaning of Section 3(1) of the Act, to be granted exclusive rights when Cathay Pacific are based in Hong Kong, command much local loyalty, and can expect to draw traffic from their network of regional services.

I concluded therefore that the substantial new traffic likely to be generated over a period by a wider variety of services would offer a reasonable prospect that four operators could, over a period, achieve an economic return on this route.

I have accordingly upheld the Civil Aviation Authority's decision to license British Caledonian but in addition have directed it to reverse its decisions on the other two applications and issue licences in the same terms to Cathay Pacific and Laker, but without prejudice to the former's existing rights between Hong Kong and Bahrain. The Authority and the other parties to the appeals are being informed of my decision today.



As I have reached this decision by the normal appeal criteria, I do not intend to issue a political direction under Section 4 - and I have informed the Hong Kong Government accordingly.

I believe that my decision will be welcomed by airline passengers generally, and in Hong Kong where freedom to compete is one of the cornerstones on which the economic success of Hong Kong has been built. I hope therefore that the Government of Hong Kong will lend support to the applications which Laker may now wish to renew to the Hong Kong Air Transport Licensing Authority and to any applications which British Caledonian and Cathay Pacific may wish to make to increase the frequency of their services, should they believe it is in their interests to do so.

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255  
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10 DOWNING STREET

*From the Private Secretary*

16 June 1980

*Dear Nicholas*

The Prime Minister was grateful for your Secretary of State's detailed explanation of the decision which he has reached on an air service licensing appeal for the London/Hong Kong route, as set out in his minute of 12 June.

She has noted the decision, and Mr. Nott's plans for announcing it, and is content with the proposed timing.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Scotland, and the Environment, the Paymaster General, the Attorney-General, the Chancellor of the Duchy of Lancaster, the Chief Whip, and to Sir Robert Armstrong.

*Yours ever*

*Mike Patterson*

Nicholas McInnes, Esq.,  
Department of Trade.

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255

*see below*

1. MR. SANDERS (re timing of statement)
2. PRIME MINISTER

Mr. Nott reports his decision on an air service licensing appeal for the London/Hong Kong route, which may be controversial, and could involve a further appeal to the courts.

Last year, British Caledonian, Laker and Cathay Pacific (Hong Kong based with BA holding a 15% stake) applied to operate the route previously flown only by British Airways. The Civil Aviation Authority concluded that traffic forecasts justified only one additional carrier, and licensed British Caledonian in March. Mr. Nott has now directed CAA to license Laker and Cathay Pacific in addition. His note sets out the background and likely public reaction, as well as the basis on which any further appeal to the courts might be made. The Attorney General has been consulted, and believes that Mr. Nott has a even chance of having his decision sustained.

Mr. Nott wants to announce his decision next Tuesday, as he has a dinner that evening with Hong Kong connections. He has in mind a statement in the House that afternoon, but I understand that there may be difficulties over this.

*MAD*

PRIME MINISTER

Mr Nott wants to make an oral statement on Tuesday. We are committed to have Mr Pym's statement on cruise missiles on that day, and I would have advised that this one might perhaps have gone written. But I understand that Mr Nott himself suggested an oral statement, and very much wants to make one. In these circumstances, content to have both statements on Tuesday (before the 2R of the Coal Bill)?

*Yes MS.*

*MS 13/6*



PRIME MINISTER

UK-HONG KONG AIR SERVICES

You will wish to be aware of a decision which I have reached on an air service licensing appeal for the London-Hong Kong route. It is likely to arouse controversy and an appeal to the Courts against my action cannot be ruled out. The decision will remain confidential until 17 June.

2. The route between Hong Kong and the United Kingdom is unique in the modern aviation scene in that it runs between two British points (a cabotage route) and is therefore reserved for British airlines. Until now only British Airways (BA) has been licensed to operate the route, but there has been increasing dissatisfaction with the standard of service and the lack of competition. I believe that substantial traffic between Hong Kong and Europe has been lost by Britain to other national airlines as a result of this situation. Last year applications to fly between London and Hong Kong were submitted to the Civil Aviation Authority (CAA) by three airlines - British Caledonian (BCal), Laker and Cathay Pacific (CPA); the last of these is a Hong Kong based airline, a subsidiary of the Swire Group, in which, however, BA have a 15% stake.

3. The CAA concluded on 17 March that the forecast traffic on the route did not justify more than one additional carrier and decided that the BCal application for a daily service with DC10 aircraft was the most appropriate. BCal was therefore licensed to join BA on the route, and the applications by CPA and Laker were rejected.



4. This decision caused deep resentment in Hong Kong, where CPA is regarded very much as the local airline, and the licensing of BCal has been alleged by critics to represent a colonialist approach. Laker regarded the CAA ruling as an example of the continuing anti-competitive approach to civil aviation, in which charge he is anxious to join the present Conservative Government. Both airlines appealed to me against the CAA decision, and in addition the Hong Kong Government requested me to use my powers of direction to the CAA to give a licence to CPA for political reasons based on wider Hong Kong/UK relations.

5. Public and Parliamentary opinion is obviously divided, but in political terms the prevention of competition and the thwarting of Laker's attempts to introduce cheaper travel to a wider travelling public is incompatible with our general stance. Furthermore it could be damaging to our trade and political relations with Hong Kong if we do not allow CPA onto the route.

6. Having considered all the evidence I have been convinced by Laker's views of the potential development of traffic on the route, which are very much more optimistic than those of the other carriers. Laker argued that there is a vast untapped market at the bottom end of the price range (in his words "the forgotten men and women at the bottom end of the market") who will fly the route if fares are pitched at the right level. I am sure that this dynamic approach to civil aviation is right and should be acknowledged. I have therefore decided to direct the CAA to licence CPA and Laker in addition to BA and BCal.



7. There has already been extensive speculation about my decision, and it has been generally assumed that I will use my powers of political direction to allow CPA to come on to the route. My ruling in favour of four carriers will, however, be unexpected. It will of course be welcomed by Laker, by the majority of the Tory Parliamentary Party and, I believe, by the popular press. CPA will have reservations about competition being more fierce than anticipated but they can hardly object. BA and BCal may be infuriated, but I am confident that I can, at least, dilute the antagonism of the BA management. BA will see the market which has been their own divided between four rather than two airlines - which in any case they saw as damaging to their interests. BCal has stated publicly that it is staking a great deal on the opportunities of the Hong Kong route and it may be hit hard by this competition - assuming, of course, that all four airlines decide to fly the route, and that decision will be for them.

8. I have taken the Attorney General's advice on my proposed decision and he thinks it would not be easy for anyone to challenge it successfully in the Courts. In considering appeals I am bound to have regard to the statutory duties of the CAA in the 1971 Act, but I am at liberty to reach a different decision for theirs if I am satisfied that their judgement is wrong.

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9. One of those duties is to be satisfied that all services will provide an economic return on capital for efficient operators and this would be the most likely challenge if I go ahead.



10. The line against me would be that one or more of the four licensees would not be able to make a profit, even after a reasonable period, so that the requirement of an economic return would not be satisfied and that a direction to grant further licences would accordingly be invalid. But I believe that this is not the case and that the CAA's approach was far too restrictive. For my decision to be upset in the Courts it would be necessary for objectors to show that it was manifestly unreasonable, on the basis of the evidence, for me to allow four operators on the route and hence that I had not had proper regard to the particular statutory duty referred to above. The Attorney General thinks that the objectors would have a difficult task in showing that the evidence (although certainly speculative) could not reasonably support my decision.

11. He thinks that for the reason given in my proposed decision letter (the drafting of which he has approved) my decision could be supported. In the event of a legal challenge he therefore advises that my chances of success are at least even.

12. There is an outstanding hurdle in that the Hong Kong Air Transport Licensing Authority (ATLA) has issued licences for BCal and CPA but not for Laker. Whilst we have no means of forcing a reversal of this decision by an independent tribunal I intend that our reply to the request by the Hong Kong Government for special action in support of CPA should express the hope that they would feel able to give evidence to the Hong Kong ATLA in support of the four carrier solution at any fresh hearing on Laker's application.



13. I intend to announce this decision on Tuesday 17 June, as I have to address the "Dragonboat Dinner" of the Hong Kong Association in London that evening. If I allow the occasion to pass, it will cause an undue amount of press speculation which might be damaging. I propose to do so by a statement in the House, since this would provide, I believe, a positive launch for my decision and would be the best means of getting into the popular press.

14. I am copying this minute to Peter Carrington, Geoffrey Howe, Keith Joseph, George Younger, Michael Heseltine, Angus Maude, Michael Havers, Norman St John Stevas, Michael Jopling and Sir Robert Armstrong.

JN.

J. N.

Department of Trade  
12 June 1980



12 JUN 1980



