



THE DEPARTMENT OF TRANSPORT



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(2)

FROM THE SECRETARY OF STATE

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

My Ref:

Your Ref:

Prime Minister

*Mr. Crandall's charts and
figures are evidently
very selective.*

Dear Charles

- 3 NOV 1989

CDR.

AMERICAN AIRLINES

Thank you for your letter dated 30 October about the Prime Minister's meeting with Mr Robert Crandall of American Airlines. I should mention that Lord King dropped in on Wednesday to see my Secretary of State and Mr Parkinson was glad to have read your report of the discussion at No.10.

Mr Crandall selects his arguments and his statistics as carefully as he does his definition of an open-skies policy. The United Kingdom is not against open markets in civil aviation, as witness for instance our liberal arrangement with Canada; and we are the pacemakers in liberalising the European air transport market. But we have to protect UK interests in the US market, because that market is maintained as an imperfect one by the Americans, who reserve virtually all the traffic from the US hinterland for US carriers. We are able to defend British interests because of the air services agreement (Bermuda 2) that we negotiated with the United States. Other European countries, who have what Mr Crandall describes as less restrictive agreements envy us Bermuda 2. Their agreements were for the most part negotiated with a dominant United States just after the war; they allow the US virtually unlimited access to most European countries but only very limited access the other way round.

If you look beneath Mr Crandall's figures, you see that the bulk of the growth which he cites in transatlantic activity has gone to US carriers. Of the European share, European carriers generally have not expanded their activity any faster than UK carriers. Moreover, by picking the decade to 1988 Mr Crandall excludes the large expansion of UK-US activity immediately after the signing of Bermuda 2 in 1976. A final point: the UK has always been America's favourite European destination. There is already a lot of traffic from the UK to most major US cities. In percentage terms any growth that we now experience is bound to

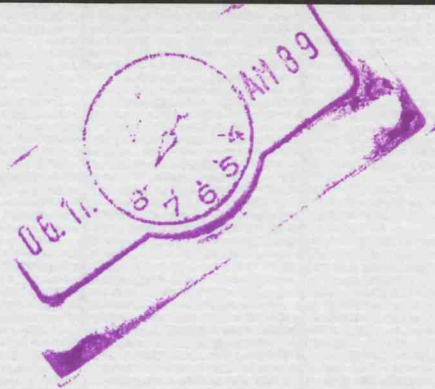
appear relatively small, whereas a marginal increase in growth on the less trafficked routes to continental Europe looks deceptively large.

In view of the air services negotiations to take place at the end of this month, the Prime Minister might not feel that she needs to write to Mr Crandall about this at this moment.

I am sending copies of this letter to John Gieve (HM Treasury), Stephen Wall (Foreign & Commonwealth Office) and to Neil Thornton (Department of Trade & Industry).

Yours Roy

R J GRIFFINS
Private Secretary



American Airlines

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Zia Shiver

*am
107x*

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November 3, 1989

R.L. CRANDALL
CHAIRMAN AND PRESIDENT

The Right Honorable
Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London SW 1
England

Dear Prime Minister:

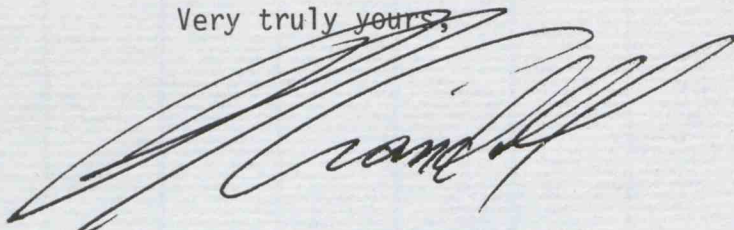
You were most gracious to make time in a very busy schedule -- particularly during a time of upheaval -- to talk with me about international aviation.

As a longtime admirer of your enormous achievements, I was very pleased to have an opportunity to talk with you about what I think is a genuinely important subject. Travel and tourism is the world's largest business -- the United Kingdom is uniquely positioned to benefit from its expansion -- and a liberalized world aviation system is essential to that expansion.

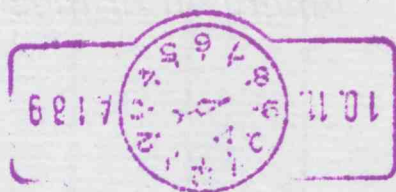
Given British Airways' strength, and the benefits which the United Kingdom would realize from liberalizing your transatlantic aviation policy, it seems to me that your support for an "open skies" approach is consistent with all your perspectives -- The United Kingdom's economy, British Airways' welfare and your well-known economic views.

However you may decide on this issue, I am grateful for an opportunity to talk with you and wish you continuing success in the months and years ahead.

Very truly yours,



eh





File KRo
cc Sir PC
AMERICAN

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 October 1989

AMERICAN AIRLINES

The Prime Minister had a brief meeting this morning with Mr. Robert Crandall of American Airlines and Sir Francis Tombs of Rolls Royce. Most of the conversation was entirely inconsequential. But Mr. Crandall took the opportunity to raise the question of deregulation of airline traffic. His basic message was that travel and tourism were the world's biggest industry, responsible for some 7 per cent of capital spending and the biggest single employer. Yet governments seemed intent on systematically suppressing the growth of aviation round the world. The Chicago Treaty of 1944 was no longer appropriate to the conditions of the 1990s. Unfortunately, and against its reputation, the United Kingdom was more restrictive than several other European countries in the way it dealt with transatlantic flights. He would be perfectly happy to see an open skies arrangement which would allow complete freedom to pick up passengers from one airport in Europe and take them to any other in the United States and vice versa. He felt that the economy of the United Kingdom was being damaged because, increasingly, passengers were flying from the United States into France, Germany and Switzerland rather than the United Kingdom. He produced the enclosed charts to illustrate his point.

The Prime Minister noted that Mr. Crandall had chosen his words very carefully. The open skies proposal would not permit British or other foreign airlines to convey passengers between two points in the United States. The grip which American airlines had over internal passenger networks in the United States would mean that the proposal would work very much to their advantage against that of European airlines. We were in favour of deregulation but it had to benefit both sides.

BF // The Prime Minister would, nonetheless, be grateful for comments on the points made by Mr. Crandall as illustrated by his charts. She might consider writing to him to follow up her discussion.

Sh

I am copying this letter and enclosures to John Gieve (H. M. Treasury), Stephen Wall (Foreign and Commonwealth Office) and to Neil Thornton (Department of Industry).

CHARLES POWELL

Roy Griffins, Esq.,
Department of Transport.

THE IMPACT OF SUFFICIENT LIBERALIZATION

INCREASED U.S. – U.K. TRAFFIC FOR THE
FLAG CARRIERS OF BOTH COUNTRIES

INCREASED TOURISM EXPENDITURES IN
THE UNITED KINGDOM

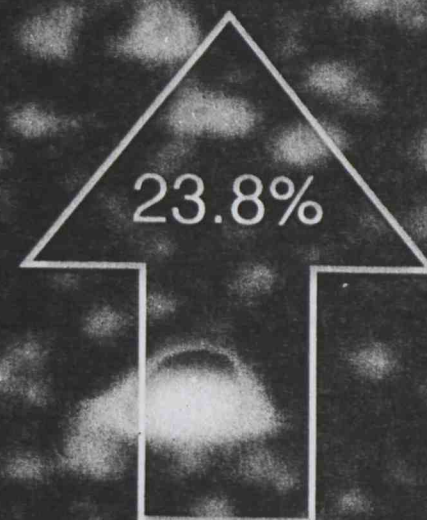
INCREASED JOBS IN THE UNITED KINGDOM:
BETWEEN 35,000 – 55,000

THE IMPACT OF RESTRICTED MARKET ENTRY

(1988 U.S. – U.K. ROUNDTRIP PASSENGERS)
(MILLIONS)

4.2

5.2

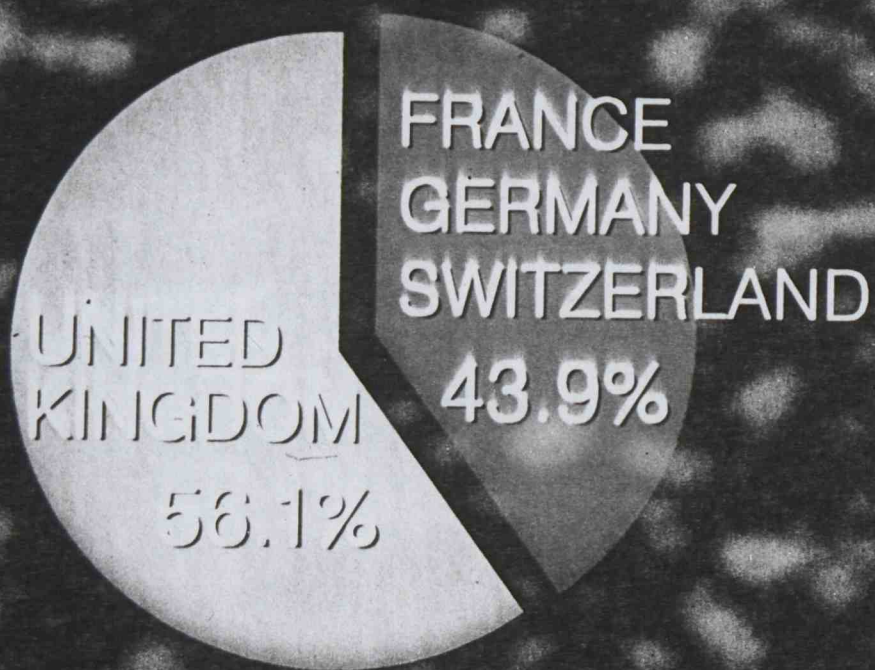


ACTUAL
PASSENGERS

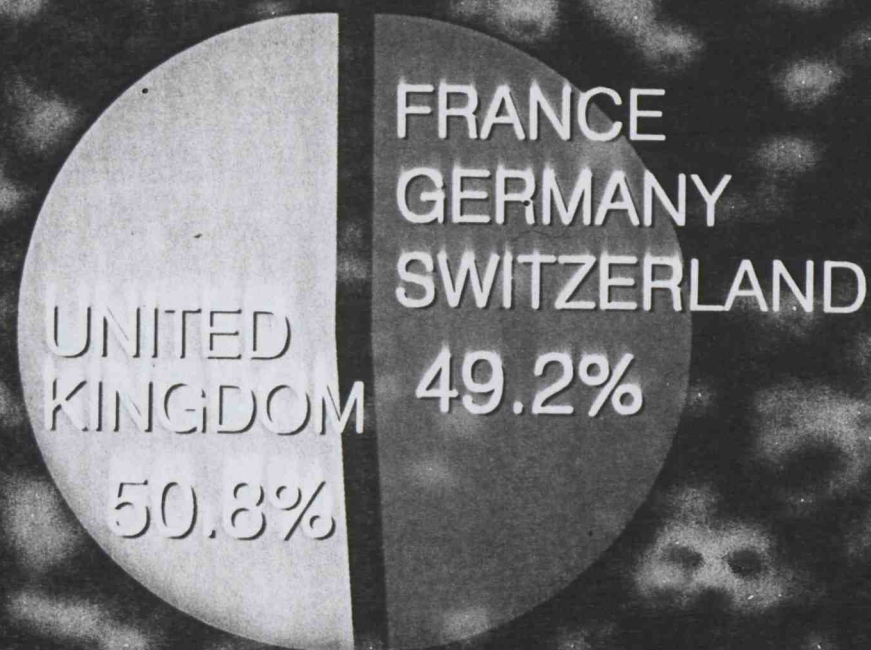
PROJECTED PASSENGERS
ASSUMING OPEN ENTRY

A SHRINKING UNITED KINGDOM MARKET SHARE *(TRAFFIC TO/FROM THE UNITED STATES)*

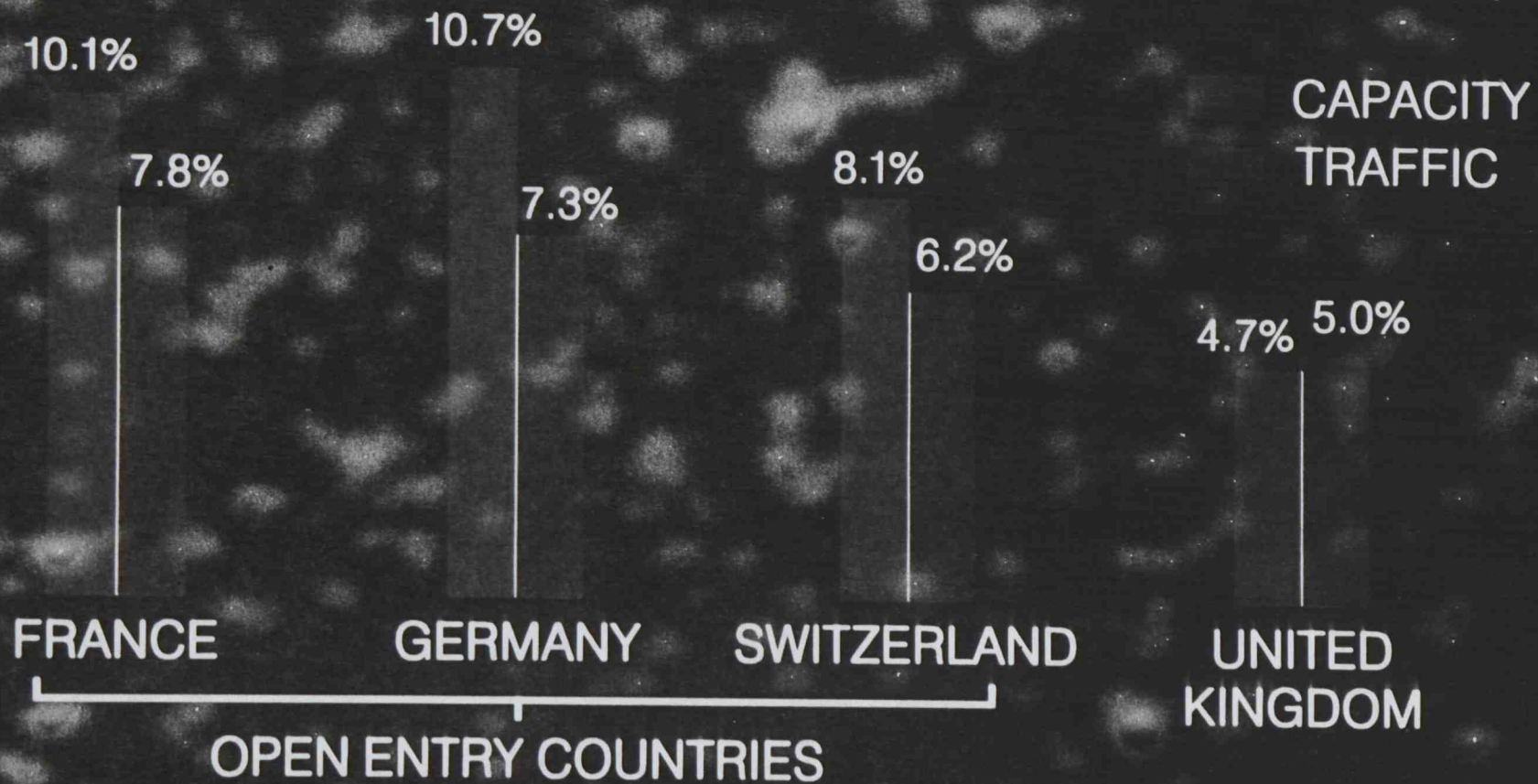
1978



1988



A SHRINKING UNITED KINGDOM SHARE OF CAPACITY/TRAFFIC *(AVERAGE ANNUAL GROWTH 1978 – 1988)*



UNITED KINGDOM SHARE OF TRANSATLANTIC FLIGHTS *(SCHEDULED WEEKLY ROUNDTrips)*

64.3%



1978

50.8%



1988



13.5%

A SHRINKING UNITED KINGDOM SHARE OF U.S. CITIZENS *(AVERAGE ANNUAL TRAFFIC GROWTH 1978 – 1988)*

7.4%

6.0%

5.7%

4.2%

FRANCE

GERMANY

SWITZERLAND

UNITED
KINGDOM

OPEN ENTRY COUNTRIES

PRIME MINISTER

MEETING WITH THE CHAIRMAN OF AMERICAN AIRLINES

You agreed as a favour to Sir Francis Tombs to see Robert Crandall, the Chairman of American Airlines, on Monday. American Airlines are a major customer for Rolls-Royce as well as being currently the most successful US airline. They are based in Dallas. I think Mr Crandall came to the dinner which Mark gave for you in Dallas in 1987.

Francis Tombs' letter describes Mr Crandall as a great exponent of deregulation of air traffic. The truth is that he is a great exponent of deregulating other people's markets while fighting like a tiger to keep people out of his market. You will want to take any declarations on this subject with a large pinch of salt. (John King has telephoned to underline this point.)

CDP

CHARLES POWELL

27 October 1989



FROM THE MINISTER FOR AVIATION AND SHIPPING

2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

Paul Gray Esq
10 Downing Street
LONDON
SW1

My Ref:

Your Ref:

25 October 1989

Dear Paul

PRIME MINISTER'S MEETING WITH MR ROBERT CRANDALL ON 30 OCTOBER

Please find enclosed briefing for the Prime Minister's meeting with Mr Robert Crandall covering the negotiations on US/UK air services.

As you will see, the line to take is to say as little as possible as American Airlines have, of course, a vested interest in the outcome of the negotiations.

Best wishes

E. Whatmore

Elizabeth Whatmore
Private Secretary to
Patrick McLoughlin

PRIME MINISTER'S MEETING WITH MR ROBERT CRANDALL, CHAIRMAN OF AMERICAN AIRLINES

BILATERAL UK/US AVIATION ISSUES (IF RAISED)

Line to Take

We are keen to see an increase in air services between the UK and the US. But this must be on the basis of providing opportunities for the airlines of both sides, as well as meeting the needs of the travelling public. I hope the negotiations planned for November will be successful.

Background

American Airlines are a significant force in US aviation, and are increasingly important and ambitious players in the US/UK transatlantic market. Efficient and successful, they are self-confident and much concerned to expand. They are also frustrated that Pan American and TWA, for historical reasons, are specially favoured on many US routes. They wish to expand their services into Europe and in the UK they wish immediately to increase their services into Manchester, where we have already allowed an initial Chicago-Manchester route that has proved very profitable. We would welcome growth for our regional airports, provided further rights given to US carriers were balanced by sufficient suitable opportunities for UK carriers in the US. The question of rights to Manchester and elsewhere will be the subject of UK/US inter-governmental negotiations at the end of November.

Meanwhile Mr Crandall's public stance is that he is a liberaliser. The UK/US market is in fact unbalanced. Only US carriers can tap the significant US interior market, and UK carriers are restricted to attracting their passengers at the main US international gateways. This means US carriers, particularly those like American Airlines with well-developed domestic networks, have a massive inbuilt competitive advantage and can more easily mount new services than can their UK competitors. Mr Crandall (alone amongst his peers) has spoken of the desirability of the US Government giving some (undefined) "limited cabotage rights" to UK carriers in return for our giving "broader entry into the UK" for US carriers. There is no sign of the US Government (or other airlines) having any sympathy with this idea. In any event, UK carriers would find it hard to start from scratch in the US, and in reality carriers like American Airlines would still enjoy an overwhelming advantage. We also know (from a widely leaked letter of his) that Mr Crandall is fiercely protectionist when there is any thought of foreign carriers being allowed into American Airlines' main hub airport at Dallas. And American Airlines objected to the recent proposed

BA/UAL deal because it would have improved BA's access to the US domestic market. They argued that we should first alter our bilateral Air Services Agreement so as to allow, inter alia, US carriers unrestricted access to the UK (while UK carriers would still be restricted to the main US gateways). In short and not unnaturally, Mr Crandall pursues the interest of his airline, and his liberal protestations cannot be taken at face value.

DTP/IA2

24 October 1989

FOR USE ONLY IF RAISED

DISAPPOINTED THAT NO TRANSPORT MINISTER HAS AGREED TO A MEETING

Line to Take

Given that negotiations are shortly to be held, it would not be appropriate for Transport Ministers to be seen having private meetings with a major US airline.

Background

Both the Secretary of State for Transport and the Minister for Aviation and Shipping have been asked to meet Mr Crandall by Mr Ian Sproat and have turned down the invitation on the grounds that it would be inappropriate for a meeting to take place at this time. The US Government has proposed a large deal which may end up being scaled down. The US Government will then have to make difficult choices between their airlines. In the circumstances, it seems best to keep at arms length from a major US carrier that will inevitably be involved.



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OF TRANSPORT



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 October 1989

PRIME MINISTER'S MEETING WITH
MR ROBERT CRANDALL

We spoke earlier today about the Prime Minister's forthcoming meeting with Mr Crandall and Sir Francis Tombs on 30 October. You asked me on what points the Prime Minister would require briefing. I enclose a copy of Sir Francis Tombs' letter to the Prime Minister of 30 June in which the possibility of a meeting was first mooted and which indicates the possible scope of the discussion.

PAUL GRAY

Miss Elizabeth Whatmore
Department of Transport



FILE

KK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1989

Further to our telephone conversations,
I am writing to confirm that the Prime Minister
is looking forward to seeing you with the
Secretary of State for Defence on Friday
28 July at 1445.

cf 1 I can also confirm that we will expect
to see you and Mr. Robert Crandall here
at No. 10 at 1100 am on Monday 30 October.

(MRS. AMANDA PONSONBY)

Sir Francis Tombs

WTS.

MRS PONSONBY

Sir Francis's
secretary to
come back with
dates

The Prime Minister told Francis Tombs this
afternoon that she would see Mr Crandall.
Could you please find 30/45 minutes in the
autumn and negotiated with Francis Tombs'
secretary.

CDP

Charles Powell

4 July 1989

Photo?



MT(61)

cuAP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 July 1989

The Prime Minister has asked me to thank you for your letter of 30 June in which you ask whether she would be able to see Mr Robert Crandall, Chairman and President of American Airlines, during the autumn. As she told you today, the Prime Minister will be delighted to do this. But I think from the point of view of her diary that a meeting would be easier to arrange than a dinner. May I suggest that your secretary should ring Mrs Ponsonby of this office to discuss possible dates in the autumn when a meeting could be arranged.

Charles Powell

Sir Francis Tombs

to



ROLLS-ROYCE plc
65 Buckingham Gate, London SW1E 6AT
Telephone: 01-222 9020, Telex: 918091

Chairman's Office

6/

RRFLT1

30 June 1989

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Dear Prime Minister,

You may know that we have been successful in obtaining two large orders from American Airlines for RB211-535 engines and Tay engines. These represent major breakthroughs for us and the aggregate value of the engines and spares will approach £2 billion.

American Airlines occupy a leading position in world aviation as does their Chairman and President, Mr Robert Crandall who is a great exponent of de-regulation of air traffic and has made American Airlines one of the most successful in the world.

He is a great admirer of your achievements and would certainly greatly value an opportunity to meet you; I am sure that you would find his views both radical and stimulating.

I wonder whether it would be possible for you and Denis to join me for dinner in the Autumn at which I could arrange for Bob Crandall to be present. Failing that, I would be most grateful if you could spare perhaps 20 minutes to talk to him.

Yours sincerely

Sir Francis Tombs

Sir Francis Tombs

____ Grey Scale #13 ____



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