

THE CIVIL AVIATION REVIEW[A Paper by Mr. Higgins]

I seek colleagues' agreement to the line we should take when the results of the Government's review of Civil Aviation are announced. Scottish as well as aviation interests are involved.

My recommendations below are based on a series of discussions at joint meetings of the Trade Committee and Aviation Committee and consultation with various outside interests.

The future of British Caledonian as the "Second Force" airline is the central issue.

British Caledonian envisage the review will produce one of four possible outcomes.

- (1) Complete nationalisation and integration with British Airways.
- (2) Nationalisation with B-Cal remaining a separate entity.
- (3) The status-quo but with B-Cal obtaining designation on those routes for which the CAA have issued it with licences.
- (4) Designation on routes for which B-Cal has secured licences from the CAA plus a 25 per cent Government stake in B-Cal.

B-Cal (and British Airways) are opposed to option 1. The B-Cal union members are strongly opposed to it since it is likely to result in substantial redundancies at Gatwick. British Airways union members also appear to oppose it since it would bring to a head British Airways' over-manning problem. I recommend we reject it as an extension of nationalisation.

Option 2 is not a stable solution. There is general agreement it would soon lead to integration with British Airways.

Option 3 is described by B-Cal as slow death because they feel they must expand to survive. But there is also a danger that they may not have sufficient resources to overcome any unexpected crisis.

Option 4 is B-Cal's preferred solution. Their argument is that a Government stake (which was originally envisaged in the Edward's Report) would introduce "stability" into British aviation and take it out of the political arena.

The Trade/Aviation Committees with only one or two dissenting voices at well-attended meetings are strongly against this solution.

B-Cal maintain they do not need the money to survive. When pressed as to why they want a 25 per cent Government stake B-Cal express the view that if the Government had such a stake it would help with future route designation and tend to dissuade British Airways from fierce competition.

The general view at the joint meetings of the Trade and Aviation Committees has been that (1) the object of setting up B-Cal was to increase competition so that a solution to the present difficulties, designed to eliminate them would defeat the whole object of the exercise. (2) They cannot understand why B-Cal should suppose a 25 per cent stake would take the matter out of the political arena since it clearly intensifies the broad political issues now in the centre of the stage. (3) They are opposed to making B-Cal another British Leyland. (4) They take the view that a 25 per cent stake would soon be increased to a majority interest or 100 per cent stake.

I share the general view and recommend we should go, in effect for option 3 $\frac{1}{2}$. In other words we should give full support to B-Cal's request for designation on the routes for which they have been given licences (and if necessary double-designation with British Airways on other routes as well). But we should strongly oppose acceptance of their request for a Government 25 per cent stake.

It follows:

- (1) If the Government, because of Treasury opposition to additional public expenditure, decides on B-Cal designation but no Government stake we should support them.
- (2) If the Government accepts B-Cal's preferred solution (say through the NEE) no doubt maintaining private enterprise has failed and requires Government intervention we should oppose the Government stake.

A Government contention that B-Cal were not viable without Government help would be in conflict with the Company's own contention.

- (3) We should in any case press for designation on routes for which B-Cal have licences.
- (4) If the Government go for nationalisation of B-Cal, as part of British Airways or separate from it, we should oppose them.

It seems likely that the Liberals and Sect. Nats will anyway back B-Cal's proposals for a 25 per cent stake.

It is for consideration - if we adopt the course I recommend - whether we should go further and say that, on return to office, we would withdraw the Government 25 per cent stake if the present Government takes it.

Apart from the central issue of the position of B-Cal as the "Second Force" airline the following points may arise:

- (1) Whether we should perpetuate the system whereby an airline applying for operating rights on a particular route should have to make its case for a licence to the CAA and then, if successful, go through the whole process again to try and obtain designation from the Minister. I would prefer a single-tier system.

(2) Other tactical problems - Laker's proposed North Atlantic service and Pan Am Commission routes are not likely to be covered. If they are I recommend we back Laker and support the Government in opposing Pan Am's action (though not to the extent of extending clauses for extra territorial jurisdiction).

(3) Questions concerning IATA, Fare Structure etc. seem unlikely to be covered by the review. But they need to be considered as part of our own policy review and I have therefore asked Kenneth Warren to chair a Policy Group which is taking a radical look at Civil Aviation policy as a whole.

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