



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

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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.

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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

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

Department of Trade
1 Victoria Street
London SW1H 0ET

10 June 1981

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17 JUN 1981



UNITED KINGDOM OF GREAT BRITAIN

GOVERNMENT

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