

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

Handwritten notes: "H", "RPS", "clp", "no.", "OR", and a checkmark.

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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.

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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 Lalor