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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.

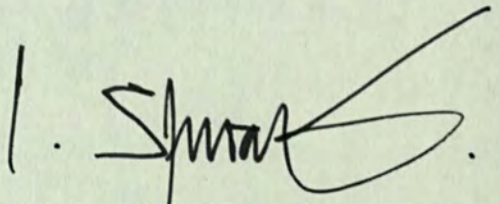
In either case travellers will be temporarily stranded abroad, and others who have paid for inclusive holidays will be prevented from taking them. In the winter the number involved, and the amounts of money paid will be much less. There is more spare capacity on other airlines to repatriate travellers 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.

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