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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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David Peretz Esq
Private Secretary to
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

*To note
the latest position
21st December 1984*

Dear David,

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27/12.

BRITISH AIRWAYS: LAKER LIQUIDATOR'S SUIT

At the Prime Minister's meeting on 17 December my Secretary of State reported on the current state of the negotiations between British Airways and the Laker Liquidator for a settlement of his action against BA and other airlines in the US courts. The meeting felt that, if a settlement could be reached with the Liquidator on terms close to those my Secretary of State had indicated, it would be advantageous to settle. We have therefore encouraged British Airways to continue the negotiations.

British Airways and their legal advisers came to see officials here yesterday to bring us up to date with progress. Firm figures have not yet emerged. The estimate of around \$80m for a settlement by all the airline defendants which my Secretary of State indicated at the Prime Minister's meeting still looks right; but there are two main areas of uncertainty:

- (i) Although the figure of \$80m includes an element for settlement with Sir Freddie Laker personally, this part is still particularly uncertain.
- (ii) It is also unclear how much the European airline defendants will be willing to contribute; so far they have jointly offered \$7.5m, which BA's negotiator has dismissed as inadequate. BA are hoping to talk this figure up somewhat, but we do not know how far they will succeed.

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BA's best estimate of their own contribution to the settlement has now gone up - largely because of the disappointing offer from the European airlines - to \$35m to \$45m. Pan Am and TWA might each contribute \$8m-\$10m. All the figures are, however, still very uncertain. BA hope to have a definite proposition for their Board and for Ministers by the end of the first week of January.

My Secretary of State doubts the defensibility of the settlement as it is now emerging, although the costs of a settlement must ultimately be weighed against the enormous potential liability and the risks of continuing the litigation. He sees great difficulty in explaining to Parliament and the public why BA should pay much more than the American airlines involved (BCal and the European airlines are in another category because the charges against them are different). He has asked BA and their negotiator to try to achieve an agreement whereby the shares of BA and Pan Am, if not also of TWA, are less unequal. We have encouraged BA to press ahead with the negotiations, without committing the Government; and we will report again as soon as we have clearer information from BA on the terms available.

BA's negotiator considers that continuation of the public uncertainty about the target date for privatisation strengthens his hand in pressurising the other parties to settle quickly, and to make their maximum contribution. It is therefore our intention if possible to make no statements to the Press over the Christmas and New Year period beyond the defensive line we have already agreed. We are, however, preparing, in consultation with other Departments concerned, a press announcement of a substantial deferment of privatisation, against the contingency that we are forced into making a formal statement.

I am sending copies of this letter to Andrew Turnbull (No 10), Len Appleyard (Foreign & Commonwealth Office), Henry Steel (Law Officers' Department), Callum McCarthy (Department of Trade & Industry) and Richard Hatfield (Cabinet Office).

Yours,

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MISS D A NICHOLS
Private Secretary

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