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CONFIDENTIAL

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TO IMMEDIATE F C O

TELEGRAM NUMBER 783 DATED 5 MARCH

LAKER

SUMMARY

1. BA HAD TWO MEETINGS WITH DRAPER AND ALBRIGHT (EXIMBANK) TODAY. AT THE FIRST BA OFFERED A TOTAL OF DOLLARS 18.2 MILLION INCLUDING NON-DRAWDOWN: EXIMBANK HELD OUT FOR DOLLARS 30 MILLION PLUS DOLLARS 10 MILLION NON-DRAWDOWN. AT THE END OF THE MEETING BA URGED EXIMBANK TO INCLUDE NON-DRAWDOWN WITHIN THEIR DOLLARS 30 MILLION DEMAND. THE RESULTING GAP WOULD BE DOLLARS 10 OR DOLLARS 12 MILLION WHICH MIGHT BE BRIDGEABLE IN SOME WAY. THIS PROMPTED EXIMBANK TO SUGGEST THE SECOND MEETING LATER IN THE DAY. AT THE SECOND MEETING EXIMBANK CAME NO LOWER THAN DOLLARS 33 M, BUT WERE KEEN TO HAVE FURTHER DISCUSSIONS. CLEAR SIGNALS FROM VARIOUS SOURCES THAT DRAPER, FOR ALL HIS TOUGH NEGOTIATING, UNDER STRONG PRESSURE FROM WHITE HOUSE AND THAT DISCUSSION SHOULD INDEED CONTINUE.

DETAIL

1. MARSHALL (BA) AND PARK (LINKLATER AND PAINE) SAW DRAPER AND ALBRIGHT (EXIMBANK) OVER LUNCH TODAY. THE ATMOSPHERE OF THE MEETING WAS MUCH BETTER THAN PREVIOUSLY, WITH GREATER WILLINGNESS ON EXIMBANK'S PART TO LISTEN. WHEN THEY GOT DOWN TO BUSINESS, BA SAID THEY WERE WILLING TO INCREASE THEIR OFFER BY DOUBLING THEIR COMMITMENT FEE ON THEIR BOEING 757 LOAN, PRODUCING DOLLARS 3.2 MILLION, AND BY INCREASING THE INTEREST RATE ON THE LOAN BY 1.4 PERCENT PER ANNUM, PRODUCING DOLLARS 5 MILLION (PRESENT VALUE). TOGETHER WITH NON-DRAWDOWN THIS TOTALLED DOLLARS 18.2 MILLION. IN REPLY DRAPER INSISTED THAT HE WANTED A MINIMUM OF DOLLARS 30 MILLION PLUS THE VALUE OF THE NON-DRAWDOWN, TOTALLING DOLLARS 40 MILLION. HE PROPOSED THAT THIS SHOULD BE ACHIEVED IN PART BY INCREASING THE INTEREST RATE ON ALL OUTSTANDING LOANS ON 737S AND 757S TO 13 PERCENT. THIS WOULD, THEY CLAIMED, PRODUCE DOLLARS 24 MILLION (ON MARSHALL'S CALCULATION DOLLARS 28M IS NEARER THE MARK).

2. THERE WAS EXTENSIVE DISCUSSION ON THE NON-DRAWDOWN. DRAPER ARGUED THAT IT WOULD NOT HAVE BEEN USED ANYWAY. BA ARGUED THAT, WHILE IT WOULD NOT SHOW ON THE BALANCE SHEET IMMEDIATELY, IT WAS STILL A BENEFIT WHICH COULD BE DISCLOSED PUBLICLY. EXIMBANK WERE UNCONVINCED.

3. IN DISCUSSION ON THE LEGAL VALIDITY OF THE POST-LIQUIDATION INTEREST CLAIM, DRAPER SAID DISMISSIVELY THAT HE DID NOT LISTEN TO THE STATE DEPARTMENT LAWYERS - THAT WAS ANOTHER WORLD.

4. IN DISCUSSION OF SIR FREDDIE LAKER, DRAPER FOR THE FIRST TIME GAVE A HINT OF ACCEPTING THE NEED FOR PAYMENT TO HIM BY REVEALING CONCERN OVER THE POSSIBILITY THAT LAKER MIGHT NOT GIVE A RELEASE WHICH INCLUDED EXIMBANK.

5. THE DISCUSSION WAS SUSPENDED BECAUSE DRAPER HAD TO GO TO ANOTHER MEETING. BA ASKED EXIMBANK TO INCLUDE NON-DRAWDOWN AS PART OF DRAPER'S FIGURE OF DOLLARS 30 MILLION, LEAVING A GAP TO BE BRIDGED IN THE FURTHER DISCUSSION OF DOLLARS 30 MILLION AGAINST DOLLARS 18 MILLION. IT MIGHT BE POSSIBLE TO ACHIEVE THIS. THIS PROMPTED DRAPER TO SUGGEST ANOTHER MEETING AT 5 PM. BA'S OVERALL IMPRESSION OF THE MEETING WAS THAT DRAPER WAS NOW TRYING TO FIND A SOLUTION BUT STILL HOLDING OUT FOR AN EXCESSIVE AMOUNT.

6. THE MEETING AT 5PM WAS SHORT. DRAPER DEMANDED DOLLARS 33M MADE UP AS FOLLOWS:

- A. DOLLARS 3M COMMITMENT FEE
- B. DOLLARS 5M FRONT END FEE, APPARENTLY A RECENT EXIMBANK INNOVATION UNDER WHICH BORROWERS PAY UP FRONT 2 PERCENT OF LOANS APPLIED FOR. FOR BA DRAPER CALCULATED DOLLARS 250M.
- C. DOLLARS 10M NON DRAWN DOWN
- D. DOLLARS 15M (PRESENT VALUE) ADJUSTMENT OF INTEREST RATES.

7. DRAPER SAID HE WANTED A CASH SUM NO LESS THAN THAT PAID TO LAKER.

8. BA SAID THAT THEIR "SHAREHOLDER" WAS ALREADY DISPLEASED THAT, BY SUGGESTING DOLLARS 13 M (PLUS DOLLARS 10M NON-DRAWDOWN), THEY HAD EXCEEDED THEIR AUTHORITY. DRAPER SAID THAT HE HAD THOUGHT HE WAS NEGOTIATING WITH PRINCIPALS AND THAT HE WAS NEGOTIATING FREELY AND IN GOOD FAITH. BA ARGUED THAT AT DOLLARS 23M, WITHOUT TAKING ACCOUNT OF THE NONDRAWDOWN, EXIMBANK WOULD BE GETTING MORE THAN THEIR DUE. DRAPER ARGUED THAT IT WOULD NOT BE BY MUCH, WOULD NOT AFFECT OTHER CREDITORS AND BY THE DEVICES HE WAS SUGGESTING

WOULD NOT INVOLVE THE OTHER DEFENDANTS. BA ARGUED THAT EXIMBANK SHOULD NOT GET MORE THAN 100 PERCENT. DRAPER WAS KEEN TO CONTINUE THE DISCUSSION AFTER BA HAD TALKED TO THEIR PRINCIPALS, PREFERABLY THIS EVENING OR FIRST THING IN THE MORNING. HE WAS EVEN WILLING TO GO OUT TO DULLES AIRPORT TO MEET MARSHALL THERE BEFORE THE LATTERS PLANNED DEPARTURE AT MIDDAY ON 6 MARCH. IT WAS LEFT THAT BA WOULD CONTACT DRAPER, BY IMPLICATION ON 6 MARCH.

9. MINISTER COMMERCIAL SPOKE TO MORRIS (STATE DEPARTMENT) TO EXPRESS DISAPPOINTMENT AT THE CONTINUED STAND-OFF AND LACK OF REASONABLENESS ON EXIMBANK'S PART, SUGGESTING THAT THE SETTLEMENT WE WERE ALL AFTER WAS SLIPPING AWAY. HE EMPHASISED THE POINT ABOUT EXIMBANK NOT BEING ENTITLED, UNDER JERSEY OR US LAW, TO MORE THAN ABOUT DOLLARS 20M. MORRIS SAID THAT THE STATE DEPARTMENT HAD TOLD DRAPER THIS. IF HE WAS NOT RESPONDING, IT WAS BECAUSE HE WAS NOT TAKING ANY NOTICE OF THE STATE DEPARTMENT. SHULTZ HAD SAID DRAPER SHOULD SPEAK TO DON REGAN. HE COULD ONLY SUGGEST THAT HE SHOULD DO SO.

10. SIMULTANEOUSLY MARSHALL SPOKE TO THE PRESIDENT OF MCDONNELL DOUGLAS IN CALIFORNIA (MCDONELL DOUGLAS HAD BEEN PUTTING ON PRESSURE OF HER OWN THROUGH REGAN'S STAFF). HE SAID THAT THE WHITE HOUSE HAD EXERCISED VERY STRONG PRESSURE ON DRAPER AND GIVEN HIM 48 HOURS, AND PREFERABLY 24, TO SETTLE. (PRESUMABLY FROM THE START OF TODAY'S DISCUSSIONS). THE WHITE HOUSE WANTED NO INTERNATIONAL INCIDENT OR PROBLEMS WITH THE UK. ACCORDING TO MCDONNELL DOUGLAS, THE STATE AND COMMERCE DEPARTMENTS HAD ALSO PUT PRESSURE ON MCDONNELL DOUGLAS.

11. HE CALLED REGAN THIS EVENING. HE ASKED ABOUT THE NEED FOR LAKER TO RECEIVE MONEY AND SAID THAT DRAPER WAS "NEGOTIATING" AND HAD TO HAVE A GOOD STORY TO TELL TO CONGRESS. HIS EXECUTIVE ASSISTANT HAD SPOKEN TO DRAPER TWICE (UNCLEAR WHEN). THEY HAD NOT SIGNED OFF. HE (REGAN) WOULD TAKE A CLOSE LOOK IN THE MORNING.

12. MY RECOMMENDATION IS THAT DRAPER SHOULD BE ALLOWED TO SWEAT THROUGH MOST OF TOMORROW, THAT BA SHOULD CONTACT LATER IN THE DAY AND THAT THEY SHOULD BE IN A POSITION TO SAY THAT THEY HAD SPOKEN TO THEIR PRINCIPALS: THAT THEIR PRINCIPALS WERE UNHAPPY THAT BA HAD GONE AS FAR AS THEY HAD: THAT THERE WAS NO QUESTION OF GOING ANY FURTHER: AND THAT BA HOPED A CONCLUSION COULD NOW BE REACHED. WE HAVE SPOKEN TO PARK, WHO AGREES.

13. FCO PLEASE ADVANCE COPIES TO: PS/SECRETARY OF STATE, PS/NO 10, PS/SECRETARY OF STATE FOR TRADE AND INDUSTRY, PS/ATTORNEY GENERAL, PS/FINANCIAL SECRETARY, PS/SECRETARY OF STATE FOR TRANSPORT, PS/MR RENTON (FCO), KNIGHTON, HOLMES, FORTNAM (DTP), BRAITHWAITE, O'NEILL, GRAY (FCO), AUST (LEGAL ADVISERS, FCO), AYLING (SOLS, DTI), GARDINER (LAW OFFICERS' DEPT), HEALEY, RICKFORD (DTI), GREGSON (CABINET OFFICE), WILSON (TREASURY).

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