



CPK

PRIME MINISTER

FALKLANDS TROOPING CONTRACT

Michael Heseltine ^{with TA/CAP? dated 29/3} has minuted you about the difficulty which has arisen over the contract which, with the Cabinet's agreement, I told Lord King the MOD would place with British Airways; this was crucial to securing his acquiescence in our proposals for route swaps between BA and British Caledonian.

The previous correspondence between us, of which you have had copies, record the subsequent train of events, and I need not repeat it again. The simple issue is that British Airways were promised a contract to carry servicemen to and from the Falklands.

That was important to them because it helped to offset the work and revenue they lost from giving up profitable routes to Saudi Arabia in exchange for BCal's unprofitable services to South America. In their press release about the exchanges BA announced that they were going to get the Falklands contract.

In one respect Michael and I both misunderstood BA's intentions. The Tristars they wanted to lease from the RAF were not for the Falklands contract, although we thought they were. As soon as this had been clarified I made clear to BA that they were asking for the impossible. That took away a significant part of the deal they thought they were getting. Further, BA had asked for a three year contract, but accepted that 12 months might be all they could expect.



BA then made it clear that the use of a 747 for the Falklands task was more economical than using the smaller Tristars. The RAF's proposal to fly the service themselves emerged later.

The issue is not whether the RAF, having subsequently found a cheaper way of doing the job, should now be allowed to do so; but whether the Government, having given certain assurances in order to bring to a successful conclusion the extremely difficult and protracted negotiations I undertook with BA and BCal, should then go back on what it offered. To do so would not simply make the Government's word less credible in the eyes of Lord King and his employees: it will also make it much more difficult to insist on what we must tell BA about the balance sheet we present at privatisation. They too have a problem - they announced to their staff and the world that they were getting the contract, and would be seen to have been wrong.

I think it is vital that we find a solution which is honourable for all those concerned. To that end British Airways are prepared to reduce the price of a 12 month contract from £18.6 million to £17 million. As an alternative they have already indicated to the MOD that they would be prepared to accept a contract for 6 months only, at a price of £10 million. (The price cannot be reduced pro rata with time because there are substantial front-end costs which do not vary with the period of the contract.)

I urge you strongly that BA should be given a contract on one or other of these two bases.

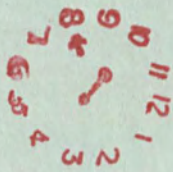
Copies of this minute go to the Chancellor of the Exchequer, Secretary of State for Defence, Lord Privy Seal, Secretary of State for Trade and Industry and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'NR', is written below the text.

NICHOLAS RIDLEY

1 April 1985

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