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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

JW to see

David Norgrove Esq  
Private Secretary  
10 Downing Street  
LONDON SW1A 2AA

20 June 1986

Prime Minister

Dear David,

Mr

CDP  
20/6.

UK/US AIR SERVICES: BERMUDA 2 NEGOTIATIONS

You asked how things stand on this. The answer is that matters are coming to a head, albeit in an unsatisfactory way from our point of view.

As you will recall, apart from the anti trust issue (on which we hope to make useful progress in the near future based on a much more constructive approach by the US Department of Transportation to their powers under existing US law to remove a number of difficulties) our main efforts have been directed at securing an agreed capacity control mechanism to replace the existing Bermuda 2 mechanism (Annex 2) which expires on 23 July. Some form of agreed capacity control mechanism on the North Atlantic is in our view essential if BA, BCal and Virgin Atlantic are to retain an adequate market share in the all important UK/US market.

Negotiations on this Annex have been going on for some time but, following a disappointing round at the end of May, my Secretary of State saw Mr Seitz of the US Embassy to emphasize the importance and urgency of this issue as far as we are concerned. This was followed up by a Working Group meeting in Washington last week at which the US negotiators took an unhelpful line, but which at least clarified a number of the important issues so far as we are concerned. There is to be what we regard as a final round of negotiations in the week of 21 July in Washington. In the short run, our aim must be to create a favourable climate for these talks, at the political level in Washington, and officials will be discussing with the FCO what additional steps can be taken. Within the next two weeks my Secretary of State will circulate to members of MISC 112 a paper setting out the UK's negotiating objectives, the options available, and the implications for the privatisation of British Airways.

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I am copying this letter to Robert Culshaw (FCO).

Yours,

Richard.

R A ALLAN  
Private Secretary

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