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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

15 September 1986

UK/CANADA AIR SERVICES

The Prime Minister has noted the Transport Secretary's minute of 11 September about our efforts to resolve the dispute over air services with the Canadian government. She agrees that, if it is impossible to find a satisfactory basis for agreement as a result of next week's talks with the Canadians, we should give notice of termination of the Air Services Agreement.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

(CHARLES POWELL)

Ms Vivien Life,  
HM Treasury.

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BM



PRIME MINISTER

*I should have thought  
the threat would be  
enough to  
secure rejection  
no*

*Prime Minister  
Agree that we  
should if necessary  
give notice to  
terminate this agreement?*

UK: CANADA AIR SERVICES

We should try to resolve the dispute about air services with the Canadians, now that the immediate problems with the US are settled.

*COP  
12/9*

The brief on air services prepared for your meeting on 13 July with the Canadian Prime Minister outlined our current problems with Canadians. The present arrangements are very disadvantageous to British Airways. I felt at that time that termination of the Air Services Agreement, followed by a completely new negotiation, seemed to be the only way forward.

But I was prepared to accept the advice of our High Commission in Ottawa, which was endorsed by the Secretary of State for Foreign and Commonwealth Affairs, that we should give negotiation one more try. It was agreed that if this failed, or if the Canadians played for time, I should terminate the agreement.

The talks scheduled for late July to discuss proposals made earlier by my officials were postponed by the Canadians. They have since rejected those proposals, and have counter-proposed a meeting on 16 September to discuss their own alternative ideas. We have agreed to meet the Canadians. But on the basis of the two rounds of talks held earlier this year I frankly doubt that the Canadian Government will come forward with any ideas which will be acceptable to us. This is confirmed by recent messages from our High Commission in Ottawa.

I propose that my officials should start next week's talks with a real attempt to see if a basis for agreement exists.



If it does not, I propose to give immediate twelve months' notice of termination of the agreement. This dispute has been going on for too long, and it is time that we settled it. Termination may be the only means to get serious negotiations started, and I should like to authorise my negotiators to use it if necessary.

I have considered the implications for British Airways privatisation and have consulted my banking advisers. I am satisfied that termination would not cause difficulties. The market is, of course, much smaller than the UK/US market, and the present arrangements are clearly disadvantageous to BA.

I should be grateful to know, if possible by close of business on Monday 15 September, whether you are content for me to proceed in this way.

Copies of this minute go to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

JOHN MOORE

11 September 1986

