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Parliament



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From the
Minister of State
Norman Tebbit

The Rt Hon David Howell MP
Secretary of State for Energy

9 July 1981

D. David

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 7 July in which you indicate your belief that British Airways' assumption of a 5 per cent increase in the real price of fuel is likely to prove too high, and counsel against setting British Airways' forecasts against the current state of the market.

The reference in the draft reply to the current state of the market was intended as a reminder to the Committee that conditions had changed substantially since they took evidence from British Airways on 28 January, and to challenge the Committee's criticism of the airline's assumption as being over optimistic. However, I quite agree that forecasting in this area is so hazardous that, if we can get away with it, we should as a Government avoid suggesting even by inference that the present weakness in the market will continue. Fortunately the information given to us by British Airways about how their assumptions compare with those of the industry generally enables us to make a suitably convincing rebuttal of the Committee's criticism without our having to refer to current market conditions.

I am sorry your people were not brought in earlier, and that this contributed to your own response being delayed. You will, however, be pleased to learn that your suggestion came in time for it to be included in the proof of the Government's reply. Paragraph 9(b) of this now reads as follows:-

"(b) Forecasting in this area is naturally difficult; but the British Airways' assumption of an increase in fuel prices of 5 per cent annually in real terms should be judged against the fact that the forecast level of increase assumed by British Airways is significantly higher than that being used by the airline industry generally."

I am copying this letter to the recipients of mine of 22 June.

NORMAN TEBBIT

10 502 JUL 1981



Palmer

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7 July 1981

See memo

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

You kindly copied to me your letter to Keith Joseph of 22 June, with a copy of the proposed Government reply to the Select Committee Report on Concorde.

My Department would have welcomed the opportunity to have seen and offer comment at an earlier stage on the details of British Airways' assumptions on fuel price increases to which you refer at para 9(b) of your proposed reply. My response on this has been delayed by difficulties in establishing exactly what information had been supplied to the Committee. However, I note that British Airways assume a 5% increase in fuel prices in real terms.

We recognise the difficulties of making short term forecasts of product price increases but we believe that British Airways' assumptions are likely to prove too high. An interdepartmental group of officials under Treasury Chairmanship produced a report last year - which suggested as a central case a 4% p a rise in crude prices in real terms. Product prices will to some extent follow such a trend but the mix of crudes, the mix of product output and, most important, market conditions, will determine the actual movement in product prices. I understand that British Airways have themselves indicated that their forecasts are higher than those used by the airline industry generally, which are nearer 3%, and have proposed an amendment accordingly.

There is one further point which calls for comment, and that is your Department's assumption that oil prices are unlikely to recover in the foreseeable future. There are no certainties in an area, such as this one, which is so heavily influenced by political events. But the present weaknesses in international oil markets could well prove of short duration, given that OPEC is likely to press for cutbacks in production to remedy current surpluses. I doubt therefore the wisdom of setting British Airways' forecasts against the current state of the market. I suggest that you simply refer to the fact that British Airways' forecast is higher than that of the airline industry generally.

Copies of this letter go to the other recipients of yours.

D A R HOWELL

Jan 20
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