



Foreign and Commonwealth Office

London SW1A 2AH

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Dear Charles,

Toronto Summit: UK/US Aviation Problems

There are a number of current difficult aviation issues outstanding with the Americans. It is possible that President Reagan may raise one of these - Berlin air services - with the Prime Minister.

At the end of 1987 four large American airlines applied to operate services between West Berlin and the FRG, in competition with the main incumbent carriers: Pan Am (approximate market share 65%), BA (30%) and Air France (5%). Only carriers of the three Western Allies may fly in the air corridors to Berlin.

The US airlines' interest in Berlin was probably linked with President Reagan's "aviation hub" speech in June 1987 launching the Allied Initiative; and also with their desire to get a foothold in Europe before 1992. In April the Americans tabled formally a reduced bid for only two new airlines (TWA and American Airlines); but this still envisaged a large increase in capacity (2 million seats or 33%) on the routes concerned.

These applications have been under discussion by the three Allied Civil Air Attaches in Bonn (who have since the 1950s regulated all civil air traffic to Berlin on a consensus basis). Our aims have been:

- to encourage greater competition (which the Berliners have said they want)
- to ensure that British commercial interests (ie mainly those of BA) are supported
- to pressure stability in Berlin's vital air services.

In March we tabled a paper envisaging a new, more liberal framework, with multiple designation of carriers and competition on all the main routes; but also a ceiling on the total American share of the market to prevent the large American carriers swamping it. The French have tabled similar proposals. In March we also supported an application

/by BA



by BA to reinstate services on the Berlin/Munich route, for which they had an operating permit but from which they had withdrawn in the early 1970s as part of a (now lapsed) route rationalisation agreement with Pan Am. The Americans eventually gave grudging agreement, but only at the last minute after we had pressed them hard. Most recently, we tabled a further proposal which would allow each of the three Allies to increase the total capacity operated by their carriers by up to 600,000 extra seats for a trial, transitional period. We believed - and continue to believe - that the rapid introduction of the huge extra capacity the Americans have proposed (to which must be added a recent French bid for 1.2 million extra seats and our own airlines for about 600,000) could lead to damaging instability.

The Americans did not give our or the French proposals serious consideration, but pressed instead for approval of their airlines' applications in full. Secretary Shultz raised the matter here with the Foreign Secretary on 3 June, and again in Madrid on 8 June. Shultz has "insisted" that we and the French give rapid approval to the US airlines' applications in full. The US subsequently agreed at Madrid that there should be an urgent tripartite "study" in Bonn, to be concluded by 24 June, but made it clear that this would have to lead to approval of their flights, otherwise they would approve them unilaterally.

We have not been able to determine exactly what lies behind this sudden increase in American pressure; but we suspect a combination of arm-twisting in Washington by the big US airlines and the present electoral period in the US. This would also explain their recent toughness on other aviation issues (see below). In any event, having seen the strength of US feeling on this issue at Madrid, the Foreign Secretary believes that the risk of unilateral US action is real. This would be a breach of the tripartite consensus which has been the basis of Allied dealings over Berlin since the War. But we would in practice have no means of stopping such flights.

The Foreign Secretary therefore feels that we should now concentrate our efforts over the Bonn study on trying to reach an agreement which accommodates the American demands (as well as our own and those of the French) but preserves so far as possible the stability of the Berlin services and maintains the system of Allied consensus. In practice this may mean allowing the Americans most of what they are demanding, while seeking to tie them down to mechanisms designed to ensure the continuation of services to Berlin by carriers of all three countries (including BA) and to reduce the risk of swamping the market.

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Given Shultz's close involvement in this issue, it is possible that he may raise it with the Foreign Secretary at Toronto, and that he may even brief President Reagan to mention it to the Prime Minister. If so, the Foreign Secretary suggests that the Prime Minister:

- express satisfaction that proper negotiations are now underway;
- reiterate our determination that these should succeed in producing a solution based on tripartite consensus; and
- stress the political importance we attach to maintaining air services to Berlin by airlines of all three Allies;
- warn of the unsettling political effect for Berlin of any unilateral action.

The Foreign Secretary in any event proposes to speak on these lines to Shultz.

The other two main UK/US aviation problems are user charges at Heathrow, where the Americans complain, in our view unjustifiably, that BAA's charges are too high and discriminate against US airlines; and computerised reservations systems, where the US aim seems to be to maintain the heavy bias of their own systems in favour of US airlines, while securing more favourable treatment for the latter within the present system run by BA and the new international systems being developed in Europe. It is very unlikely that the Prime Minister will need to discuss any of this. The essential point for her to be aware of is that, on these issues too, the US are showing a tough, even unreasonable position that leaves little room for serious negotiation. The Foreign Secretary considers that we should take every opportunity to urge on the Americans at a high level the virtues of reaching negotiated solutions to these problems rather than resorting to ill-considered unilateral action.

I am sending copies of this letter to Roy Griffiths (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours ever,

L Parker

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Private Secretary

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