



10 DOWNING STREET

THE PRIME MINISTER

10 September 1982

Dear Mr. Thomson.

Thank you for your letter of 26 August expressing your concern that the Government's desire to proceed as soon as possible with the privatisation of British Airways might overlook the consequences which this change would have for the rest of the civil aviation industry. I can assure you that we are most anxious to see a thriving and healthy airline industry in this country and are very concerned that our airlines should recover as quickly as they can from the problems which have been created for them by the economic recession. Indeed it is because we have confidence in their ability to do so that we believe British Airways will be more successful in the private than in the public sector.

In your letter you speculate about various changes which may be made to pave the way for privatisation. While some re-organisation of British Airways' finances may be necessary, the Government have not yet received nor approved any specific proposals.

You suggest that some re-allocation of routes might be of benefit to British Airways as well as to your own company, and I understand that you have recently given some specific examples to Iain Sproat of route exchanges between your two airlines which you have proposed to Sir John King. I am sure that this is the most constructive and fruitful way for you to proceed, and if you are able to agree on some mutually acceptable proposals to put to the Civil Aviation Authority, I have no

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doubt they will respond helpfully. John Biffen in his reply to your letter of August 1981 explained why he did not think the Government should initiate such a redistribution, and I am sure you will appreciate that that would be quite contrary to the change which we brought about in the Civil Aviation Act 1980, which made the Authority, rather than the Secretary of State, responsible for policy on route licensing.

Finally may I thank you for your support for our stance in the Falkland Islands dispute, and I am sorry that those events have made life more difficult for you.

Very good with.

Yours sincerely

Raymond DeLisle

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From the Chairman's office

20th August, 1982.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London, SW1.

Dear Prime Minister,

I wrote to you on the 14th August 1981 expressing concern about the British Air Transport industry and making suggestions which I felt could place it on a sound basis for the future. I received an acknowledgement from your office and then a letter from John Biffen on the 30th September 1981, which stated in the last sentence "I do not think that a major reorganisation of the nation's air transport industry is necessary".

Since that time Iain Sproat and John King have been energetically tackling the longstanding problems within British Airways and, if I may say so, obtaining some promising results. The objective of privatising at least part of that airline is still being promised before the next Election. I have no fundamental objection to this, indeed I would like to see complete privatisation rather than part. However, I am concerned lest the consequences of this action on British Caledonian are not fully understood. A massive change in the financial structure and goals of 75% of the U.K. scheduled industry represented by British Airways must de facto, cause a major reorganisation of U.K. air transport.

1980 was a disastrous year for the airline industry; 1981 was another and in 1982 the hoped for return towards prosperity has not materialised and the industry is in the throes of the worst crisis in its history; no airline is exempt although some, like British Caledonian, are faring better than others. We were estimating a return to profitability this year and, had it not been for the Falklands War, which had a £5M negative effect on our profit, we would still be forecasting a profit

for the 31st October, our financial year end. I hasten to add my full support for the Falklands action and how thankful I am that we had a Prime Minister with the courage and conviction to do what was necessary. However, we are now in a position where we shall be fortunate if we break-even this year.

Latest world airline industry forecasts show significant shortfalls between profits and the amount required to service debts, indeed they indicate a worsening position in 1983.

The British Airways' problem is twofold. The first, created through its inefficiency as a nationalised entity, the second, through an industry crisis that is affecting all airlines.

I can envisage the actions that John King is taking changing British Airways into a leaner, slimmer, more effective airline; I have read that this could be followed by £600M, £700M or £800M worth of Government cash being injected, then an attractive package being offered to the private sector.

Other British private enterprise airlines operate short haul scheduled services and charter flights and may be unaffected by this development, but we shall be. From the British United Airways and Caledonian Airways of the 60s British Caledonian was formed in 1971; by its own efforts it has achieved an acceptable international reputation for quality service. Bit by bit it has fought for route licences and built a network which has made it the biggest privately owned international scheduled airline in Europe. British Caledonian is the only non-U.S. airline, which is completely privately owned, competing on U.S./Europe North Atlantic routes. We now see one of our main competitors about to receive massive Government investment and support, on a scale never before contemplated, without any apparent regard for the effect this will undoubtedly have on the British private enterprise carrier that has kept the flag flying in spite of all opposition for the last twelve years. My suggestion is that, instead of the Government simply endeavouring to find a solution for British Airways, it should be considering what steps should be taken in the interests of the British airline industry as a whole and that means including British Caledonian.

Prime Minister, our business is more complicated than most, it is regulated nationally and internationally, the latter is usually covered by Air Service Agreements between two countries which, on most occasions, restrict the number of flights operated per week, the fares that can be charged and even the type of aircraft that will be permitted on the route. British Government policies have lent one way and then the other since the end of the Second World War and perhaps with greater changes over the past 21 years when I have been involved with Caledonian Airways and British Caledonian. These policies have gradually permitted the development of British Caledonian as the second British flag carrier on international routes, but only after a long, hard fight for every single franchise (licence) that has been won. We have problems with protective policies

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for airlines in emerging countries, which not infrequently break Air Service Agreements; the difficulties with remittance of funds from African countries to cover costs already incurred have recently been raised. Overall we are in a business that is simply more dependent than most on Government policies at home and abroad.

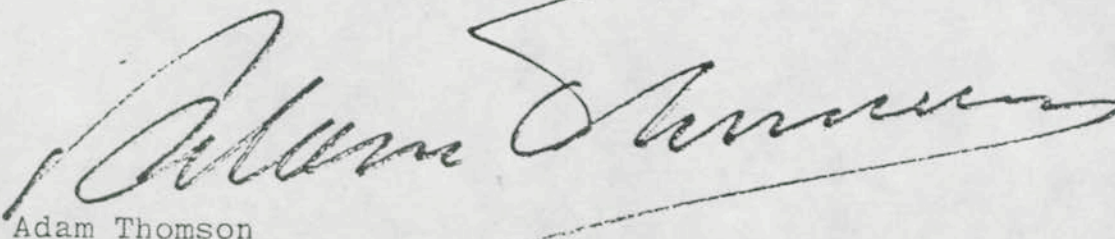
There are a number of actions that can be taken between British Airways and British Caledonian that could result in improvements for both. In the past we have been rebuffed by the British Airways' management when we have put these forward. I have recently put such proposals to Iain Sproat and John King and received much more positive responses and a willingness to give them consideration. I expect serious discussions to take place on this subject during September.

Why then am I writing to you? Simply because the Government's objective appears to be singular - turn British Airways into an efficient, effective operating unit and privatise it. I would like to see British Caledonian's own efforts in creating an international airline, operating to 48 cities in 31 countries, recognised through an objective which is designed to take consideration of our industry crisis. I would suggest that an appropriate strategy would be "encourage the profitable development of the two British international airlines through the privatisation of British Airways and an allocation of routes to both which will allow them to compete effectively in the international market place".

I believe that right now, with the enormous financial difficulties of the U.S. airlines, we have a unique opportunity to lead the world in air transportation and I think it would be ironic indeed if this Government's constructive plans for British Airways excluded consideration of the significant part the existing British wholly private enterprise flag carrier has played in the past and could play in the future. British Caledonian has a good track record and I would suggest deserves better than being excluded from current Government policy.

Certainly I am talking constructively to Iain Sproat and John King and they are being as constructive as they can be under the present policy - but right now it seems to me that they must be severely limited as they are working to a directive which they are determined to fulfil - "Privatise British Airways" - Regardless? Beyond that shouldn't the Government's clear objective be to encourage the development of a strong profitable air transport industry of which the nation can be proud.

Yours sincerely,



Adam Thomson