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Prime Minister ② ✓ R. Young
You may be interested to see B
a Policy Unit view cc Mr. Mount

MR. TURNBULL

BRITISH CALEDONIAN - A BITE OUT OF BRITISH AIRWAYS?

MS AT 7/11

The BCal "offer" made public last Friday (to purchase some of British Airways aircraft and to take on some of their routes) is one-tenth substance and nine-tenths an enterprising piece of public relations for BCal.

The substance of BCal's statement is that, throughout the many years over which British Airways have received huge subsidy from the taxpayer, BCal have had to survive without support. Related to that is their fear that, in order to privatise BA, Government will write off accumulated debts of over £1 billion and launch it into the private sector with an unfair advantage of routes, aircraft and balance sheet.

The BCal case is vulnerable at several points:

1. The restructuring of BA's balance sheet is not yet worked out, but it is very unlikely to be debt free at the date of flotation. In any event, it is difficult to see why the removal of BA's subsidy prop in the future will put BA in a stronger position or BCal in a weaker one. It is equally difficult to see why the taxpayer's past involuntary contribution should be turned exclusively to BCal's advantage.

2. Route allocation is determined by the Civil Aviation Authority in a quasi-judicial way. If BCal is unhappy with its present route structure centred on Gatwick, Government cannot act directly to satisfy the airline, unless it wishes to pass new primary legislation.

BCal must know that the Government's policy, oft repeated, is greater liberalisation of product markets. In air transport, Shuttle has already been opened up to competition against representations from BA.

BCal's "threat" to leave Gatwick is not something on which Government should act. (In fact, the moral here is not to privatise Gatwick and Heathrow together: they must compete).

3. BCal submitted their case to the Department of Transport in a sizeable document some three weeks ago. It is curious that they should make their proposal public while it is still under consideration. Certainly BCal lay themselves open to suspicion of a public relations stunt.

If Government nevertheless wish to consider making some gesture towards BCal, they must recognise that:

- the other private sector UK airlines would hold out their hands too
- even a voluntary agreement by BA to hand something over would require CAA approval
- the disruption to BA's operations would inevitably delay privatisation.

Policy and tactics dictate that Mr. Ridley should turn down Sir Adam Thomson's offer.

RJ.

ROBERT YOUNG
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