



10 DOWNING STREET

THE PRIME MINISTER

19 December 1983

PERSONAL

Dear Sir Adam.

Thank you for your letter of 29 November, and the documents you enclosed setting out your proposals for reducing the disparity in size between British Airways and other British airlines before the former is privatised.

You remember that when John Biffen was Trade Secretary he explained that a further transfer of routes (of the kind which was carried out in the 1970s) was no longer possible.

We cannot compel British Airways to do what you suggest and any redistribution now would only be possible by mutual agreement between the airlines concerned.

I understand that you have discussed your strategy document with Nicholas Ridley, and that he told you that he has discussed the matter with Lord King. I hope that when Lord King has responded you will have a further talk with Nicholas Ridley. Meanwhile you will have seen the statement that Nicholas Ridley made to Parliament on Monday, and his answers to supplementary questions. I enclose a copy of Hansard.

/It was kind

It was kind of you to invite me to visit you and see something of your operations at Gatwick, but I am afraid that my diary is so full in the coming weeks that I would find it very difficult to fit that in. As to a meeting, I do not think that I could tell you any more at this stage than I have done in this letter, and than you have already heard from Nicholas Ridley who, I am sure, will keep you informed.

Every good wish

Yours sincerely

Raymond Shallice

Sir Adam Thomson, C.B.E.



10 DOWNING STREET

PRIME MINISTER

Sir Adam Thomson has asked for a meeting, but following Nicholas Ridley's statement there is not much you can add.

Mr. Ridley is seeking to persuade Lord King to yield routes and assets, and he has asked CAA to review the allocation of routes.

It should therefore be clear to Sir Adam that the Government is sympathetic to his case and has done all it can for the time being.

AT

15 December 1983

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

David Barclay Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

13th December 1983

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~~*has P's sig.*~~
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15/12

Dear David,

*GR's
have you
g/A
this?*

You asked for advice on Sir Adam Thomson's letter of 29 November to the Prime Minister about the consequences of privatising British Airways. He argues that the dominant position of British Airways in the British airline market, coupled with the financial strength of their balance sheet which he expects will result after privatisation, will put BA in too strong a position, so that they will pose a threat to the survival of the remainder of the independent airlines like his own. He proposes that the Government should reduce this disparity by transferring routes currently operated by British Airways to British Caledonian and other independent airlines, together with the aircraft and crews who operate them, in return for a cash payment.

The Prime Minister will recall that Sir Adam Thomson has asked the Government several times during the last Parliament for a further transfer of routes (in addition to those which he had in 1971 and 1976). The last time this was raised with the Prime Minister in 1982, she encouraged Sir Adam to agree to a voluntary transfer with

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British Airways if he could but commented that for the Government to initiate such action would be contrary to the Civil Aviation Act 1980, which made the Civil Aviation Authority, rather than the Government, responsible for policy on route licensing. In recent consideration of the privatisation of British Airways, compulsory route transfers have again been ruled out. As the Prime Minister knows, the possibility of a voluntary sale by BA of assets related to scheduled service routes, so as to contribute to improving BA's balance sheet, has been raised with Lord King.

Given the policy of successive Governments to aim for more than one airline rather than a single flag carrier, it is, of course, also desirable that policy should encourage a regime in which such airlines can flourish without anti-competitive dominance by any one airline. Civil aviation competition policy is also a matter on which the Civil Aviation Authority have statutory responsibilities and the Prime Minister will wish to know that my Secretary of State has been discussing this aspect with its Chairman. As a result, the Authority will shortly initiate a review of their policies for regulating competition in the civil aviation industry, in the light of prospective privatisation of British Airways. He would not expect such a review to result directly in immediate route transfers. Rather it would be looked to for some response to those who argue that British Airways' market power is too entrenched, and may be abused. My Secretary of State announced this review during his statement on British Airways on Monday. The aim is for this review to be completed well before BA is privatised.

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Against this background, and because he has kept Sir Adam Thomson informed, my Secretary of State does not recommend the Prime Minister to see Sir Adam.

/ I enclose a draft reply for the Prime Minister's signature.

I am copying this to John Kerr (HM Treasury), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours,

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MISS D A NICHOLS
Private Secretary

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PERSONAL AND CONFIDENTIAL

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO
SIR ADAM THOMSON CBE, CHAIRMAN, BRITISH CALEDONIAN AIRWAYS LTD
CALEDONIAN HOUSE, CRAWLEY, WEST SUSSEX RH10 2XA

Thank you for your letter of 29 November, and the documents you enclosed setting out your proposals for reducing the disparity in size between British Airways and other British airlines before the former is privatised.

You have written to me making similar suggestions before, when John Biffen explained to you that a further transfer of routes (of the kind which was carried out in the 1970s) was no longer possible; any redistribution of that kind now would only be possible by mutual agreement between the airlines concerned.

I understand that you have discussed your strategy document with Nicholas Ridley. He has told me of his discussion with you. He has also told you that he has discussed the matter with Lord King. I hope when Lord King has had time to think about it, that you will have a further talk with Nicholas Ridley. We cannot of course compel British Airways to do what you suggest. That would require further legislation, which in turn would delay the privatisation which has already had to be postponed because of BA's losses, and you will understand that that is a course which I should be most reluctant to pursue. Meanwhile you will have seen the statement that Nicholas Ridley made to Parliament on Monday, and his answers to supplementary questions.

It was kind of you to invite me to visit you and see something of your operations at Gatwick, but I am afraid that my diary is so full in the coming weeks that I would find it very difficult to fit that in. As to a meeting, I do not think that I could tell you any more at this stage than I have done in this letter, and then you have already heard from Nicholas Ridley.

We could keep the question of a meeting under review, and meanwhile I am sure Nicholas Ridley will keep you informed.

British Caledonian

Caledonian House
Crawley West Sussex
RH10 2XA England

Telephone: Gatwick (0293) 27890
Cables: Scotair Gatwick Telex: 87161

Sir Adam Thomson, C.B.E.
Chairman

29th November, 1983.

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

Dear Prime Minister,

The Government's privatisation plans for British Airways will bring about the greatest change to the British Airline Industry since the end of the Second World War.

If consideration is given to the effect of this change on the private sector of the industry and to the Airports policy and if appropriate action is taken, then the results could be beneficial to the consumer and to the industry as a whole. Should the privatisation plans proceed without any regard for the effect this will have on the existing private sector or on the Airports policy, then damage will be done to both. British Airways has 83% of the output of British scheduled air transport.

We in British Caledonian have been discussing this with Ministers and officials since the privatisation proposal was first raised and earlier this year we decided that we should prepare and submit a document to the appropriate Department. This was sent in confidence to the Secretary of State for Transport on the 8th September. The title of our document is "A Strategy for British Civil Air Transport in Private Ownership". We then produced a summary suitable for public circulation and the title of this is "Airlines and Airports". I enclose a copy of both documents. Naturally I would not expect you to have time to read these but I believe that a glance at the main document will show that our case has been prepared in depth and, where appropriate, is backed up by factual information.

I believe that this matter is of sufficient importance to our industry and to British Caledonian for me to request a meeting with you at your earliest convenience. Ideally I would like to fly you in a British Caledonian Helicopter from the centre of London to our base at Gatwick to give you the opportunity of seeing something of our organisation and the spirit of all of our people. If this visit is not possible I will, of course, understand. If it is, I would be delighted.

Yours sincerely,



Sir Adam Thomson

14/12

British Caledonian —
request for meeting

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10 DOWNING STREET

From the Private Secretary

30 November 1983

I enclose a copy of a letter to the Prime Minister from Sir Adam Thomson. I should be grateful for a draft reply for the Prime Minister's signature, to reach this office by 14 December.

Could you please include in your advice your Secretary of State's view on whether it would be appropriate for the Prime Minister to accept Sir Adam's invitation to a meeting, and if so, what the form and timing of such a meeting might be?

I am sending copies of this correspondence for information to John Kerr (HM Treasury), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

(David Barclay)

Miss Dinah Nichols,
Department of Transport