

Subject as marked



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cc Bob Young*

10 DOWNING STREET

From the Private Secretary

11 July 1984

CIVIL AVIATION REVIEW

The Prime Minister held a meeting today at the House of Commons to discuss your Secretary of State's minute of 3 July reporting on the Civil Aviation Review. Present were your Secretary of State, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Lord Privy Seal and the Chief Whip.

Your Secretary of State said the CAA would shortly be publishing the outcome of its review. The Government was likely to be able to accept a number of its recommendations but some created acutely difficult choices. In particular, the CAA were arguing that it would be desirable to transfer some routes from British Airways to other airlines, especially B.Cal, in order to strengthen the "second force" in British aviation and make it capable of competing with BA. He himself was attracted to this proposal but recognised the difficulties it created.

The Chancellor of the Exchequer was concerned at the prospect of major route transfers. He did not accept CAA's logic that this would increase competition. For the most part British Airways was in competition with foreign airlines, not with other domestic airlines. (The Secretary of State for Trade and Industry pointed out that his recent statement on competition policy had stressed that competitive conditions had to be judged in the light of competition from abroad as well as from home.) The Chancellor was also concerned at the impact on the privatisation of BA. This had been the first case identified by the Government for privatisation. It had taken a long time to prepare BA for the market but the prospects for a successful privatisation in 1985 were excellent. This could be jeopardised by acceptance of the CAA's recommendations.

The Secretary of State for Trade and Industry said BA had shed 40 per cent of its staff in the process of improving its efficiency. There would be a major outcry if it were required to sell assets and lay off still more employees. He doubted whether B.Cal had the resources to buy the assets needed to service the routes suggested for transfer. He preferred to see one strong national airline rather than two weaker ones.

The Lord Privy Seal and Chief Whip were concerned at the prospect of extending the long title of the bill on aircraft movements to widen CAA's charter in a way which would permit it to make route transfers. Even if this involved only a few clauses it would turn an uncontroversial bill into a very controversial one, enabling amendments to be put down bringing the whole BA/B.Cal dispute into the bill.

The Secretary of State for Transport said many of CAA's recommendations could be accepted without adverse consequences for the legislative programme or for the privatisation of BA. Items A, B and D, listed in his minute could be accepted (CAA itself did not propose to adopt Item C).

Summing up, the Prime Minister said that CAA's thesis that route transfers would increase competition was disputed. The Secretary of State for Transport should prepare a paper on the Government's response to the review, indicating that the Government would accept a number of recommendations which would increase competition but would not be prepared to accept major route transfers. It was desirable for such a paper to be put to colleagues as soon as possible so that the Government's position could be made known before the recess. The Secretary of State for Transport could indicate to the CAA the direction in which the Government was likely to respond. He should also request them to delay publication of the report beyond next Monday in order to reduce the gap between its publication and the Government's response.

I am copying this letter to David Peretz (HM Treasury), Callum McCarthy (Department of Trade and Industry), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols
Department of Transport