

Ref. A084/2067

PRIME MINISTER

Parliamentary Affairs: Civil Aviation
Authority Review

You had it in mind to ask the Secretary of State for Transport to report to the Cabinet on today's discussion by the Ministerial Sub-Committee on Economic Affairs of the Civil Aviation Authority (CAA) Review (E(A)(84) 19th Meeting, Item 3).

2. The main points, as you will recall, are as follows:

i. The CAA has made various proposals to increase competition with British Airways (BA) on suitable international routes and on domestic routes; these can be accepted.

ii. The CAA has, however, also proposed to transfer routes from BA to other British airlines which would cost BA about 7 per cent of its revenue and profits of £30 million a year at 1984 levels. The objections to this are:

a. It would require controversial legislation thus deferring the privatisation of BA.

b. It would reduce the receipts from privatisation and make BA a more uncertain prospect for investors (although this latter point is contested).

c. It could be held to be inconsistent with Ministerial undertakings about privatising BA as it stands; these were given in Parliament during the passage of the Civil Aviation Act 1980 which provided the powers for privatising BA.

d. Transferring profitable routes would seem a poor reward to the management and employees of BA for their efforts in improving the airline's performance.

iii. Refusal to accept the route transfer proposals will however be strenuously opposed by British Caledonian, and

the Government may be accused of merely substituting a private monopoly for a public monopoly rather than promoting competition.

iv. The majority view in E(A) was that the route transfer proposals should be rejected. It was however agreed that much care would be needed to get the presentation right (in particular to avoid the charge that the decision was taken wholly in the interests of privatisation). Some members of the Sub-Committee thought that the decision should not be announced before the House rose for the Summer Recess. Both the Secretary of State for Transport and the Chancellor of the Exchequer consider it vital to clear up uncertainty as quickly as possible.

Conclusions

3. You will wish:

- i. to confirm that the majority view of E(A) to reject the route transfer proposals is endorsed by the Cabinet;
- ii. to seek the Cabinet's views on whether the decision should be announced before the House rises for the Summer Recess.

R
Approved by
ROBERT ARMSTRONG
and signed in his absence.

18 July 1984