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PRIME MINISTER

CAA REVIEW

In the discussions on the CAA review it is argued, e.g. by the Treasury and the Policy Unit, that route transfers do not increase competition. In my view, this over-simplifies the argument. Clearly, transfers of routes on which there is single designation of the UK carrier does nothing in itself to increase competition but the issue is more complex than this. There is a significant sector of the market, which will be increased by the CAA's recommendations where BA and B Cal compete, e.g. routes like Paris, Brussels and Hong Kong and, from May next year, New York, plus the charter market.

The issue is whether there can be true competition in this area while BA has a war-chest financed from routes like that to Saudi Arabia and from its advantage in operating from Heathrow. I believe the answer to that is no and that B Cal are right. In my view also, transfer of routes to B Cal would be welcomed by other independent airlines because it would reduce the extent to which they are vulnerable to predatory competition from the giant in the market.

We are left with two choices:

- (i) Reject the CAA recommendations on route transfers; or
- (ii) transfer routes, by legislation if necessary, while accepting some delay in privatisation.

I would go for (ii). But if Cabinet decide to go for (i) they should not do so believing that they have the logic

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of competition on their side - it would be because they prefer to maintain the momentum of privatisation.

AT

ANDREW TURNBULL

1 August, 1984