

**British
airways**

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Chairman:
Lord King of Wartnaby

21 August 1984

22 AUG 1984

MR R H WILSON

MR MONICA UK

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The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London SW1P 3AG.

Nigel Lawson

I am apprehensive that in early September the protagonists in the Debate over the future of our airline industry will, by force majeure, get locked in further unrewarding and repetitive argument. In this atmosphere and with time being short some of the principles at issue may become obscure and compromises, that benefit none of the parties involved, may be imposed. This outcome would be the worst of all worlds and I am most anxious to do all that I can to help in preventing such a situation occurring.

On coming to power the aims of the Government, as far as British Airways is concerned, were twofold:-

- (a) to provide the circumstances and the freedom of management that would allow the airline to develop by its own resources to a commercial standard of profitability, and
- (b) to sell the Government owned shares to the public as soon as it was reasonably possible to do so.

The first has been achieved satisfactorily, the second is now possible but is threatened by some of the CAA recommendations.

Complementary to these aims is the Government's strong support of competition and the operation of market forces. It is under this guise that the Independent Airlines, particularly British Caledonian have mounted their campaign for route transfers which, in effect, are subsidies at the expense of British Airways. It does not seem to matter how often we say it but we cannot seem to get across that "transfer" is not "competition" between airlines. Competition in the true sense, where airlines compete one with the other, on a given route, is very much in the context of the Government's wishes and market forces then decide the future.

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The Rt. Hon. Nigel Lawson, MP

21 August 1984

During the past months the Independents and the CAA Report have accused British Airways of many things - "Monopoly", "Dominance", "cross-subsidy" from one route to another, "overwhelming power" and etc. All of these comments are answerable but, in the end, from a commercial standpoint it is route transfers from British Airways which would frustrate the Government's aim of privatisation. At the same time they would damage the Airline's financial performance and its capabilities as a world leader. All for no benefit to the consumer.

It is because we cannot see any commercial logic in route transfers for the Government or British Airways that I accept the necessity of a political solution to the issue.

In fact, the only hindrance to a solution that would satisfy both the privatisation and "competition" aims of the Government would seem to be the provision of sufficient opportunity for the Independents to expand. Not by subsidy, because that is against Government policy, but by organic growth.

To this end we have advocated already the de-regulation of domestic services and are not opposing licence applications by British Caledonian or the other Independents on international routes where we are already operating. No doubt our experts could investigate further opportunities for competition, meanwhile we have in progress a detailed study to show the likely benefits to the Independents should they take up the route access now available to them.

However, in accepting that a political solution has to be found I have to say where my Board and I are inflexible for political as well as practical reasons.

We cannot condone or agree to route transfers from British Airways. Firstly, there were the Ministerial undertakings to the contrary given by word and letter to Chairmen and Union Leaders; secondly, the consequent undertakings that were given by Management to workforce and, lastly, the very adverse effect route transfers would have on commercial objectives including privatisation.

Apart from the industrial troubles that undoubtedly would occur in the event of transfers, any breach of faith on this front would be seen as a precedent by the national union leadership and might well be used in efforts to frustrate the whole privatisation programme.

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The Rt.Hon. Nigel Lawson, MP

21 August 1984

You will agree that it is my, and my Board's, absolute duty to safeguard the affairs of the Company for the best interests of the Shareholder. Therefore, as Chairman of a State-owned Corporation, and a staunch Conservative, the last thing I want is to find myself in a situation where I am compelled to oppose Government proposals publicly. It is because time is so pressing if the Government's stated aims for British Airways are to be fulfilled on time that I write to you in the hope that you can use your good offices to initiate some form of dialogue before all sides become even further entrenched.

Lawson
DL

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blind copies to:

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Prime Minister
Secretary of State for Transport



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24 August 1984

Lord King of Wartnaby
Chairman
British Airways
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Dear Lord King

Many thanks for your letter of 21 August.

I would gladly respond to your suggestion of a dialogue, were it not for the fact that I shall be out of the country for the next two weeks. I have therefore suggested to Nicholas Ridley that in my absence, he might contact you to set up a meeting without delay. I shall, of course, be very happy to join your discussions myself, if they are still taking place when I return in the second week of September.

Yours sincerely,

Margaret O'Hara

NIGEL LAWSON

*(Approved by the Chancellor
and signed in his absence)*