

CEMA File

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## 10 DOWNING STREET

From the Private Secretary

18 November 1984

cc MASTER.

Dear Len,

PRIME MINISTER'S MEETING WITH UNDER-SECRETARY WALLIS AT CHEQUERS ON  
SUNDAY 18 NOVEMBER AT 1015 HOURS

Under-Secretary Wallis called on the Prime Minister at Chequers at 1015 this morning to convey an oral message from President Reagan about the Laker issue. He was accompanied by the US Ambassador.

Mr. Wallis said that the President wanted the Prime Minister to know that he had decided not to proceed with any indictments on the Laker issue. The Prime Minister interjected that this was marvellous news. She wanted to be absolutely clear: the President had decided not to pursue any indictments. Mr. Wallis confirmed this. He was personally pleased at the decision and knew that Secretary Shultz was also.

Mr. Wallis continued that this had been a very difficult decision for the President. Foreign policy considerations and in particular the US's traditionally close relationship with the United Kingdom pointed one way. On the other hand, the President was a firm believer in enforcing the law and in the virtues of economic competition. Enforcement of the anti-trust laws was a matter of particular importance to him. His high regard for the Prime Minister and close personal relations with her had been a very important factor in reaching the decision he had. It was the first time in President Reagan's Administration that he had allowed a matter concerning criminal indictments even to come before him. He believed it was also one of only two cases in the past 50 years where the White House had intervened in a decision on an indictment for foreign policy reasons. There would certainly be a great deal of controversy in the United States as a result. The Prime Minister said that she quite understood that it was a very courageous decision by the President. She also thought it was a wise one. She appreciated that it was the special relationship between Britain and the United States which had helped bring it about. A decision the other way would have been very damaging to our relations.

Mr. Wallis continued that he was not sure whether the Prime Minister had the same picture of the facts as the US Administration had. There was no doubt in their minds that a crime had been committed. The Justice Department were certain that they could have got a conviction. There was very strong evidence that British

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officials knew that the Bermuda 2 Agreement did not provide exemption from US anti-trust laws. The Prime Minister said that, now the decision not to proceed with indictments had been taken, it was better not to rake over old differences. As Mr. Wallis knew, the United Kingdom did not accept the US Administration's point of view.

Mr. Wallis continued that the purpose of American anti-trust laws was to improve competition, and thus secure benefits for the public. Negotiations were being conducted between the United States and the United Kingdom which could improve competition in air traffic. If these negotiations could be carried quickly to a successful conclusion, the President would be in a position to respond to public clamour about his decision not to proceed with the indictments by showing that the decision had produced demonstrably better results for the travelling public than indictments would have. He hoped therefore that political guidance could be given to the negotiators and that the negotiations themselves could resume in a week or so, once both sides had been able to reflect on how best to take them forward. The United States was thinking of sending a very high level delegation so that the negotiations should not be left in the hands of technical people who did not necessarily share the convictions of their Governments on free competition. The Prime Minister agreed that time was needed for reflection. She would review the position closely to see precisely what scope there was for some greater degree of liberalisation.

Mr. Wallis said that he hoped progress could be made, in particular on pricing. He thought that it had been the United Kingdom side which had expressed readiness to consider "dual disapproval". This would be an important step. The Prime Minister said that predatory pricing had to be avoided. Mr. Wallis said that it was illegal in the United States. Mr. Wallis continued that the Americans would obviously like to have free access on capacity. But they recognised that this was not feasible and that some limit would be required. The Prime Minister said that HMG was committed to genuine competition. With the Laker issue out of the way, it would be easier to go ahead with de-nationalisation of British Airways. Mr. Wallis said that the President's decision would not directly affect the private damage suits but the US Administration did not think they would have much chance, though juries were always unpredictable.

Mr. Wallis asked that nothing should be said in public until the President's decision had been announced in Washington. The Justice Department would be informing British Airways and their attorneys probably mid-morning local time on 19 November. Once the announcement was made, he naturally hoped that HMG would express satisfaction. The Prime Minister said she fully understood the need for complete security on this matter. She would not inform anyone of the President's decision except the Secretary of State for Transport. Mr. Wallis said that he believed Mr. Dam would be briefing Sir Oliver Wright. It was agreed that it would be useful for Sir Oliver Wright to discuss

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the terms of an announcement with Mr. Dam, though Mr. Wallis thought this could in practice prove difficult. Justice Department lawyers were outraged and very sore.

At the conclusion of the meeting the US Ambassador slipped me the attached note. It sets out US requirements, Mr. Wallis did not speak to it and I do not think that we need regard it as having been handed over officially. However, we should clearly have to admit knowledge of it if it is raised in future.

After the meeting the Prime Minister decided to send a personal message to President Reagan on the direct teleprinter link. I enclose a copy for the information of your Secretary of State only.

I am sending copies of this letter to Dinah Nichols (Department of Transport), Callum McCarthy (Department of Trade and Industry), Henry Steel (Law Officers Department) and David Peretz (HM Treasury) with the request that it should be given no distribution beyond Ministerial Private Offices until mid-afternoon GMT tomorrow, 19 November.

*yes sir.*  
*Charles Powell*

Charles Powell

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

FUTURE AVIATION ARRANGEMENTS

The U.S. needs:

- (1) substantial flexibility in pricing, akin to what is known as "dual disapproval";
- (2) a relaxation of restrictions on capacity, with regard to both frequencies and designations of carriers;
- (3) enforcement of the full disclosure of any price coordination talks in accordance with Bermuda II; and
- (4) a commitment from HMG not to invoke its blocking statute against U.S. government enforcement actions in the event of future violations by U.K. carriers, as well as a commitment to impress upon its carriers the need to comply with U.S. antitrust law in the future.

*It is my view that the President would be very grateful for your personal involvement in order to insure that negotiations on a new agreement proceed rapidly and not get bogged down on technicalities by middle level officials who may not place as high a priority on free competitive markets as you and the President do.*

Dear Ron,

I am absolutely delighted with your decision not to bring any indictments on the Laker issue. Allan Wallis was the bearer of the good news. I know that it must have been very difficult for you and as always I admire your courage in acting as you have. I am most grateful and my colleagues - when they know - will be equally pleased. I am sure that it is the best decision that could have been taken, both from the point of view of passengers on both sides of the Atlantic and in the wider interest of U.S.-U.K. relations. I agree that we must now do all we can to complete the negotiations to settle this whole problem in a way which is satisfactory to both of us.

Charlie Price also told me of your and Nancy's kind invitation to spend some hours with you at Camp David on 22 December. I should love to do this and accept with pleasure.

With best wishes and many thanks.

Yours  
Margaret

*Mufared*

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[TEXT]

Following Strictly Personal for Ambassador from  
Private Secretary NO.10

My Telno: : Laker Consultations

Following, strictly for your own information,  
is text of personal message which the Prime Minister  
has sent to the President on the direct teleprinter  
link:

Copies to:-

*Beer*

CR.

NOTHING TO BE WRITTEN IN THIS MARGIN