

SECRET AND PERSONAL



free DASAKA 5.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

9 July 1987

BRITISH CALEDONIAN

AF | The Prime Minister has seen your letter to me of 8 July recording your Secretary of State's conversation with Sir Adam Thomson, and has noted that officials are preparing a note on the courses of action open to the Government if either of the possibilities being considered by British Caledonian should emerge as a firm proposal.

I am copying this letter to Alex Allan (HM Treasury) and Timothy Walker (Department of Trade and Industry).

D R NORRGROVE

R. J. Griffins, Esq.
Department of Transport

SECRET AND PERSONAL

COPY No 1 of 7

4

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

Pine Thimble

to see; we will have to see

8 July 1987

*what B.Cal decide. Difficult
for HNG & Interline.*

Dear David

BRITISH CALEDONIAN

N. L. W

J. 7

ms

As foreshadowed in my Secretary of State's minute of 7 July, Mr Channon has now seen Sir Adam Thomson about the reports that BCal are discussing with British Airways and foreign carriers the possibilities of a take-over or other arrangements.

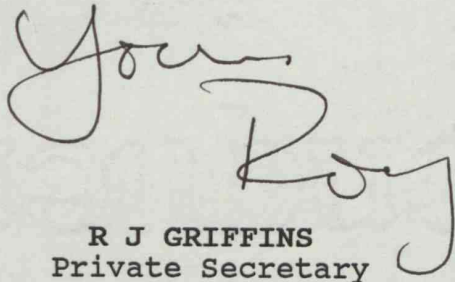
Thomson confirmed that talks have been taking place with some US and European airlines about the possibility of co-operation on a wide range of matters. The aim was to reach agreement with one foreign airline which would take a minority stake in BCal. The co-operation would cover such matters as co-ordination of schedules, joint use of computer systems and joint marketing. The foreign airline might acquire perhaps 20 or 25% of BCal initially, but the proportion might be increased over time until there were a complete merger. As an alternative, Thomson said that they were having discussions with British Airways (which he says, contrary to what Lord King has said, were at BA's initiative). BA have ruled out any arrangements other than a take-over, and discussions between the companies and their banks are proceeding now. Sir Adam Thomson has said that he would be prepared to be taken over by BA provided that the price is right and that satisfactory arrangements are made for the staff.

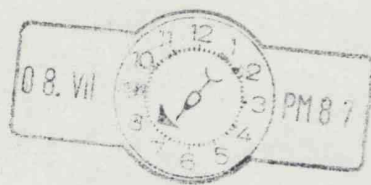
Sir Adam Thomson said that the main reason why BCal were seeking collaborative arrangements for a take-over were that the Government's review of civil aviation policy in 1984 had left them too small to compete effectively in world markets. But he said that if the present discussions led to nothing, BCal would not go bankrupt. Though last year's trading had been very bad, conditions this year were much better, and he expected that they would end the year in the black.

Thomson said that they had considered whether to approach other British companies, as an alternative either to foreign airlines or to British Airways. But they believed that the prospects of a useful collaboration with British airlines other than BA were small, and that there would be no value for BCal in exchanging one set of shareholders for another. They were not therefore disposed to pursue this route.

My Secretary of State has asked both companies to keep him closely in touch with developments. He has asked officials of this Department, together with those of DTI and Treasury, to set out the courses of action open to the Government if either of the possibilities being considered by BCal should emerge as a firm proposal. The talks with British Airways are being pressed ahead very quickly, and may well reach a conclusion during the course of the weekend.

Copies of this letter go to Alex Allan (HM Treasury) and Tim Walker (Trade and Industry).


R J GRIFFINS
Private Secretary



COPIED