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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

*Fine Answer
These negotiations always
go down to the wire -
but rarely beyond.*

COO 11 SEP 1987
11/9.

Dear David

UK/CANADA AIR SERVICES

The present Air Services Agreement with Canada expires at midnight Ottawa time on Friday 18 September. I am writing about the final stages of our negotiations with Canada, which will be taking place in Ottawa during the week commencing 14 September.

Officials here and at the FCO have been in close touch throughout the negotiations, and the Foreign Secretary has himself been directly involved in discussing the matter with the Canadian Foreign Minister, Mr Clark, on three occasions over the past year, most recently on 7/8 September. There is a possibility that the negotiations will break down either over Air Canada's wish to operate increased services between London and Bombay/Singapore or over their reluctance to allow BA to charge low fares on the North Atlantic to compete with Canadian charters.

Both points are of critical importance. If they cannot be resolved on acceptable terms, services may have to stop for a short period after 18 September while both sides take stock. BA have contingency plans to for services to nearby cities in the United States, (and Canadian airlines are understood to have similar plans). We would not want to rely on such arrangements for long and we would aim to get direct services going again on the basis of temporary permits even in the absence of a formal Agreement. The Canadians need permission for twice as many services as we do, so we should be in a strong position. The Canadians could hardly refuse a temporary arrangement without putting themselves in a highly embarrassing position as hosts of the Commonwealth Heads of Government meeting in October.

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We hope the negotiations next week will be successful, but you and others should be aware of the risks of a break down in services after 18 September and of our plans to deal with that situation if we have to. I am sending copies of this letter to Lyn Parker at the FCO, Alex Allan at Treasury, Tim Walker at DTI, Robert Gordon at Scottish Office and Peter Baldwinson at DE.

Yours sincerely

Roy Griff

R J GRIFFINS
Private Secretary