

CONFIDENTIAL
FM WASHINGTON
TO DESKBY 270900Z FCO
TELNO 2519
OF 270150Z SEPTEMBER 89
AND TO DESKBY 270900Z DTP

ADVANCE COPY
Spoken to Lord King.
CB 27/9.

UNITED AIRLINES BUY-OUT

SUMMARY

1. US EXPRESS CONCERN ABOUT EFFECTIVE BA CONTROL OF UNITED AIRLINES, THEY INSIST NO DESIRE TO SABOTAGE THE BUY-OUT, BUT HINT AT CONDITIONS.

DETAIL

2. FOLLOWING TELECON POWELL (NO 10)/GRIFFINS, SUNDERLAND (DTP) SPOKE TO SHANE (US DOT) ABOUT THE UNITED AIRLINES BUY-OUT INVOLVING BA. SHANE CONFIRMED HE HAD SENT A LIST OF QUESTIONS TO UNITED (TEXT FAXED TO DTP AND FCO). THE DOT ATTITUDE TO THE DEAL WOULD DEPEND UPON UNITED'S RESPONSE, WHICH DOT WOULD WISH TO DISCUSS WITH UNITED IN SOME DETAIL.

3. SHANE SAID DOT'S CONCERN WOULD CENTRE ON UNITED'S FINANCIAL FITNESS, MANAGERIAL COMPETENCE AND CITIZENSHIP AFTER THE BUY-OUT. OF THESE, CITIZENSHIP WAS CLEARLY THE MOST DIFFICULT. WHILE ADMITTING THAT DOT WAS FEELING ITS WAY, HE QUESTIONED AGGRESSIVELY WHETHER ANYONE COULD SERIOUSLY DOUBT THAT BA - GIVEN THEIR EQUITY STAKE - WOULD HAVE A VERY SIGNIFICANT VOICE ON THE UNITED BOARD, IF THE DEAL WENT AHEAD AS PLANNED. THIS POSED SERIOUS PROBLEMS UNDER US OWNERSHIP AND CONTROL LEGISLATION AND FOR THE INVOLVEMENT OF UNITED IN UK/US AIR SERVICES.

4. SUNDERLAND SAID THAT BA'S STAKE WOULD NOT AMOUNT TO CONTROL AND THAT ANY PROPOSAL FOR A SIMILAR US AIRLINE STAKE IN BA WOULD NOT ATTRACT UK GOVERNMENT CRITICISM. HE DREW OUT OBVIOUS DIFFERENCES BETWEEN THE UNITED PROPOSAL AND THE PROPOSED BCAL/SAS DEAL (WHICH SHANE HAD RAISED) AND POINTED TO NO 10 INTEREST IN THE DOT'S ATTITUDE. WITH THIS, SHANE'S ATTITUDE SOFTENED. HE SAID THAT THE DEAL REMAINED ''INNOCENT UNTIL PROVEN GUILTY'' AND INSISTED THAT DOT HAD NO WISH TO SABOTAGE WHAT WAS PROPOSED. HE BELIEVED IN ADDITION THAT ANY CONDITIONS OR RESTRICTIONS THE USG MIGHT ULTIMATELY PLACE ON THE BUY-OUT WOULD BE OUTWEIGHED BY THE WIDER SYNERGIES WHICH THE DEAL WOULD BRING. SHANE INDICATED

PRIVATELY THAT DOT HAD NO APPETITE FOR THE ALTERNATIVE OF LEAVING UNITED IN THE HANDS OF MARVIN DAVIS.

5. SUNDERLAND REITERATED WITH MCALLISTER (ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, STATE DEPARTMENT) HMG'S CONCERN THAT THE BA/UNITED DEAL SHOULD NOT (NOT) SUFFER FROM A US INTERVENTIONIST POLICY AIMED ESSENTIALLY AT OTHER AIRLINES' DEALS AND THAT HMG'S GENERAL OPEN-NESS TO INWARD INVESTMENT (AS REFLECTED IN ITS APPROACH TO THE PROPOSED FORD STAKE IN JAGUAR) SHOULD BE RECIPROCATED. AN INTERVENTIONIST AND RESTRICTIVE USG APPROACH TO THE BA/UNITED DEAL WOULD NOT (NOT) BE EASILY COMPREHENDED IN THE UK.

6. MCALLISTER SAID HE COULD NOT (NOT) AGREE MORE. THE TRANSPORTATION SECRETARY HAD LITTLE ROOM TO EXERCISE DISCRETION UNDER HIS STATUTORY RESPONSIBILITIES CONCERNING THE NATIONAL OWNERSHIP AND CONTROL, AND THERE WAS NO INTENTION TO EXPAND THIS. THE SECRETARY OF STATE FELT STRONGLY THAT US DECISIONS ON THIS MATTER SHOULD BE KEPT SEPARATE FROM LONG RANGE CONCERNS ABOUT THE IMPLICATION OF THE EC 1992 PROCESS FOR AIR SERVICE RELATIONS. THERE WAS NO REASON WHY THE ADMINISTRATION'S DECISION SHOULD NOT (NOT) BE DEALT WITH AS PART OF THE INTERAGENCY PROCESS IN WHICH THE STATE DEPARTMENT WOULD BE FULLY INVOLVED.

7. QUESTIONED BY US ABOUT RUMOURS OF A MAJOR SPEECH BY SKINNER ON THIS SUBJECT IN THE NEXT DAY OR TWO, STATE AND TRANSPORT OFFICIALS SAID THAT NO SUCH MAJOR SPEECH IS EXPECTED BEFORE THE ONE SCHEDULED FOR OCTOBER 5.

8. IN RESPONSE TO QUESTIONS ABOUT THE TIMING OF THE DECISIONS ON THE NORTHWEST/KLM DEAL, SHANE SAID PRIVATELY THAT IT WAS EXPECTED TO EMERGE LATER THIS WEEK AND HE HOPED IT WOULD PROVIDE BENCHMARKS FOR DECISIONS ON OTHER CASES.

9. FCO PLEASE ADVANCE TO POWELL (NO 10), BAYNE, BEETHAM (FCO) AND MOSS (IAD/DTP).

ACLAND

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