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10 DOWNING STREET

THE PRIME MINISTER

17 July 1981

*Dear Sir Freddie,*

Thank you for your letter of 2 July about your proposed service between London and Hong Kong.

It is firm Government policy to support greater competition between the airlines, and a strong independent sector in the British industry. The Civil Aviation Act 1980, although it doubtless did not go as far as you would have wished, amended the 1971 Act to place a good deal more emphasis on encouraging competition. Both Lord Carrington and I have said publicly that a more liberal civil aviation system within the European Community is among the major objectives of the United Kingdom Presidency.

So I do not think that there can be any doubt of our commitment to the principle of greater competition. British Airways are now facing more competition from the independent British airlines than they have ever had to face in the past. But in the Government's view there are limits to the amount of extra competition which British Airways or indeed any other carrier can be expected to absorb at any one time, particularly during a period of severe recession in civil aviation.

It was against this background that John Biffen reached his decision. At a price, we could probably get Laker Airways on to the London-Hong Kong route, a route on which the existing operators already compete very vigorously with each other. The price is to put at serious risk British Airways' routes out of Hong Kong.

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This price would have to be paid whatever system was devised, with Hong Kong agreement, for achieving the result you want. We know that Cathay Pacific are interested in taking over these routes, particularly the Hong Kong-Johannesburg route. I am not so sanguine as you that the interests of an incumbent airline which was providing a good service would be protected. The Hong Kong regulations, if they mirrored the system here, would contain a bias in favour of any Hong Kong-based airline just as the Civil Aviation Acts, except in respect of the London-Hong Kong route, contain a bias in favour of UK-based airlines. After very careful thought John Biffen came to the conclusion that the price was not worth paying, and I support his decision.

I was glad to hear that you have obtained licences both here and in Hong Kong for your Hong Kong-Tokyo-US services. You can be assured that we will do all we reasonably can to get the rights you need out of the Japanese.

Warm regards,

Yours sincerely

Raymond D. Roberts

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Sir Freddie Laker