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PRIME MINISTER

You have asked to be kept informed about the progress of the efforts to solve the financial problems of Laker Airways.

After I minuted you on 26 November good progress was made in providing the support from the banking sector which it was then thought would be sufficient to support Laker's operations, particularly through the low season of the winter period. The aircraft manufacturers were marshalled to guarantee a substantial proportion of an additional line of credit of £3.5 million from Laker's bankers. Most of the members of the two international banking syndicates which financed the purchase of his aircraft agreed to a deferment of repayment which he had requested; but two German and one Austrian bank are still considering the matter.

However yesterday the Civil Aviation Authority received statistics for November which showed that the traffic carried by Laker Airways during that month had been substantially below the level of the corresponding period in 1980, and was also a good deal less than had been assumed in the calculations of his cash flow in the forthcoming critical months. Hence unless the November traffic was a temporary phenomenon - and there is no reason to suppose that it was - it raises doubts whether the £3.5 million extra finance which has been marshalled will in fact prove adequate.

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The Civil Aviation Authority are still examining the figures and their implications for traffic and cash flow in the coming months. They have however already formed a tentative view that substantially more cash would be needed to enable the airline to continue to meet commitments. The Bank of England held a meeting with the merchant bankers advising Laker Airways this afternoon, at which the Civil Aviation Authority was also present, and the CAA will be having a further meeting with the airline on Monday morning to obtain a better understanding of what has produced the downturn and of the prospects. Thus we should know more clearly on Monday just how gloomy the picture is, and can then consider whether any action by the Government might be possible. My minute of 26 November, and Patrick Jenkin's comment on it of 2 December made it clear that this would not be a simple matter. We shall however look again at the possibility as soon as we have more precise information about what is needed, and whether there is any further scope for raising additional finance from the private sector.

I will keep you in touch with developments.

I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

Department of Trade
1 Victoria Street
London, SW1H 0ET
11 December 1981

WJB
(Approved by the Secretary
of State and signed in his
absence.)

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