



PRIME MINISTER

LAKER AIRWAYS

MS

Mr Biffen's word
with you after E this
morning post dates this
minute.

MUS 15/12

When we spoke tonight, I brought you up-to-date on Laker Airways. However it may be useful, if I also record in writing the state of play as on Monday afternoon.

During the weekend, Laker and his advisers have been considering what action they need to take as a result of the poor November traffic figures to which I referred in my minute of 11 December. The airline presented to the Civil Aviation Authority this morning revised forecasts of traffic and cash flow for the period from now until the end of March, in which they incorporated their ideas for cutting back a number of flights with the aim of improving the operating results. As a result, Laker thought that he could just about manage within his existing facilities, including the £3½ million additional sum to which I referred in my previous minute. But the situation is being further discussed with the banks at a meeting under Bank of England chairmanship this evening.

Meanwhile, Departments have considered again with the Bank of England whether there is anything which the Government could do if Laker and his bankers are not, on a closer examination, satisfied with the picture they find. The sale and lease-back of Airbus would no longer be useful (even if all the difficulties attendant on it could be overcome) because the reduction of flights necessary to improve the profit and loss account will mean that Laker will have little need for the Airbus.



One other possibility was examined. You will recall that the Airbus manufacturers have guaranteed the financing syndicate against loss on a resale of the Airbuses. If the Airbuses could be sold, the manufacturers, instead of taking immediate recourse for this loss against Laker, as they have the right to do, might be asked to take paper, perhaps in the form of 10 year cumulative redeemable preference shares. However, British Aerospace were thought likely to be unwilling to agree to this without a Government guarantee; and I understand that legal advice has now been given to the Department of Industry that the only powers for such a guarantee would be Section 8 of the Industry Act, which would bring all difficulties of direct Government support for Laker set out in my minute of 26 November.

While I do not expect this evening's meeting to reach final conclusions, it may show whether a private sector solution, satisfactory to the Banks and to the Civil Aviation Authority, can still be sought: if so then, amongst other things, the German and Austrian banks will also need to be brought into line.

I will continue to keep you closely informed.

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.

W J B

W.J.B.

Department of Trade
14 December 1981