

Aerospace



Prime Minister

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Ms 23/12

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CONFIDENTIAL*From the Secretary of State*COMMERCIAL IN CONFIDENCE

Michael Scholar Esq  
 Private Secretary  
 10 Downing Street  
 London, SW1

22nd December 1981

Dear Michael,

## LAKER AIRWAYS

I am writing to confirm the message which I passed to you on Friday evening and which was subsequently widely reported in the press over the weekend that after intensive negotiations, it now seems as if a private sector solution has, in principle, been found to Laker Airways' problems. Although the details of the arrangements are still fluid and subject to possible change, the key to them has been the harnessing of the interest of McDonnell Douglas as manufacturers of the DC 10 aircraft operated by Laker in avoiding his bankruptcy. McDonnell Douglas (and the engine manufacturers General Electric) are in principle prepared to convert some of their outstanding debt to preference shares, to put in some new cash in exchange for equity and to play some part in dealing with the problems connected with the disposal of Laker's Airbus. Laker will be cutting back his operations - a step which is in any case appropriate given the downturn in his traffic this autumn - and will be taking steps to dispose of his Airbus. The Airbus manufacturers, including British Aerospace, are, in view of the other steps being taken to strengthen Laker's position, prepared to allow Laker to defer repayments to them, in respect of any deficiency on the sale of the Airbus.

Clearly, much work needs to be done between now and the middle of January to sew up the details of these arrangements and further difficulties could of course emerge. However considerable progress has undoubtedly been made.

As I mentioned to you on Friday, however pleasing this news is, it would be right to continue to make a very low key response to any requests for comment, steering these in the direction of the commercial parties involved. If these arrangements are concluded satisfactorily Laker will be out of the wood in the

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short-term. But he will continue to have a hard struggle over the next year; so the Government should avoid being drawn into any statements about his viability which, if matters subsequently took a turn for the worse, could lead to passengers and other creditors feeling that they had been misled.

Copies go to the Private Secretaries 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.

Yours Sincerely,

Jonathan Rees

J N REES  
Private Secretary

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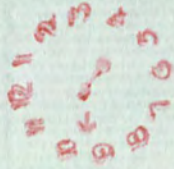
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