

CAD,

CONFIDENTIAL AND
COMMERCIAL IN CONFIDENCE

Prime Minister

①



From the
Parliamentary Under Secretary of State

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781
SWITCHBOARD 01 215 7877

To note.

Would you like me to
express the hope on your behalf
that progress on X can be

1 February 1982

Michael Scholar Esq
10 Downing Street
London SW1

Dear Michael,

*Yes please
not*

made, subject to Treasury agreement?

MUS 2/2

LAKER AIRWAYS

Jonathan Rees, in his letter of 22 December told you of the emergence in principle of a private sector solution to Laker Airways' problems. Since that time, there has been continuing discussion on the detailed arrangements, preparatory to the signature of the various rescheduling agreements.

A difficulty has now arisen which could be quite serious for Laker if matters do not go better in the next 24 hours or so. You will recall that McDonnell Douglas and General Electric were to convert some of their outstanding debt to preference shares and to put in some new cash in exchange for equity. They have now said that they are not willing any longer to put in cash but are prepared to convert larger amounts of debt. While this will help on the balance sheet it gives rise to a gap in the cash needs which Laker and his advisers, the Bank of England, and the Civil Aviation Authority all consider is needed to see him through. In further discussions, McDonnell Douglas have gone a little way to bridging the gap by offering to guarantee part of the missing sum and discussions are continuing on the problems this evening.

Some progress has begun to be made on the question of disposing of Laker's airbuses: a possible buyer in the shape of Cyprus Airways has emerged and a financing package for this is being examined. ECGD are urgently considering whether and to what extent they could support this and it appears, subject to Treasury approval, that suitable arrangements can be made.



The situation is rather finely balanced and matters could move quite rapidly, after all that has gone before, if, with the Bank of England's help as honest broker, Laker's creditors cannot fairly quickly find a point of agreement. Mr Sproat therefore feels that the Prime Minister will wish to be further informed in the sense of this letter. He will, of course, keep the Prime Minister in touch with any further developments.

If matters go badly and Laker goes into liquidation, our Ministers will obviously need to be ready to make a statement explaining the Government's position in the matter, the situation of air travellers and the extent to which they are covered against any loss.

Copies go to the Private Secretaries to the Chancellor of the Exchequer, Chief Secretary, Lord Privy Seal, Secretary of State for Industry, Attorney General, Governor of the Bank of England and Sir Robert Armstrong.

Yours sincerely,
Anne Willcocks

ANNE WILLCOCKS
PRIVATE SECRETARY TO MR SPROAT