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FILE

Ble: P. Gaggan
J. Wybran.

10 DOWNING STREET

From the Private Secretary

4 January 1985

Dear Sir,

PRIME MINISTER'S MEETING WITH THE SECRETARY
OF STATE FOR TRANSPORT

Your Secretary of State came to see the Prime Minister yesterday to report on the various policy questions facing his Department.

On buses, he said the Bill would not be published until the end of January. It was likely to be very long and very contentious, with strong opposition coming particularly from urban areas. Nevertheless he was sure it could be got through. The Prime Minister urged him to organise a group of backbench supporters. Your Secretary of State said such arrangements were in hand.

On airports policy, your Secretary of State said the CAA Bill would have to be put into abeyance for the time being. It was desirable to have the debate on the Eyre Report as soon as possible, possibly in the first week of February, with detailed Ministerial consideration to begin immediately afterwards. He believed the right course was for the Government to prepare a comprehensive statement on all aspects of airports policy - the response to the Eyre Report, the response to the review of Scottish airports, and the Government's intentions on privatisation/injection of private capital into the airports of BAA and the local authorities. As a preparatory step, he was proposing to create a number of separate PLCs, one for the three London airports, one for the two lowland Scottish airports and separate ones for the rest. He hoped such a document could be prepared by May or June. It might be better to let the present CAA Bill lapse and to introduce a more comprehensive bill in the next session dealing with all these questions. He would want to include in such a bill a power to limit movements into Heathrow as this was necessary to safeguard smaller UK airlines from powerful overseas operators. The Prime Minister was content with this approach.

Your Secretary of State said that in addition to the Essex/Cambridge group of MPs opposed to Stansted there was a powerful group of Government backbenchers supporting the development of Manchester. To secure their support it would be necessary to devise ways of securing additional traffic through Manchester.

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Discussion then turned to the problems of BA privatisation, the Laker liquidators and the US anti-trust suits. The Prime Minister gave an account of her discussions with President Reagan. She had told him that, while the US favoured liberalisation, the effect of its treble damage legislation was to frustrate the Government's most important initiative for liberalisation and de-nationalisation. Although it was possible to achieve agreements on lower fares under the Bermuda 2 Agreement procedures took several months. She had also said that while the US favoured greater competition it had 65% of the Atlantic traffic and a virtual monopoly of the feeder traffic within the US. She felt that the Bermuda 2 Agreement had become unworkable and that a new framework was required.

Your Secretary of State reported on the position reached with the Laker liquidator. Although there was a reasonable chance of agreeing a global sum with him, it was proving difficult to agree an allocation between the different airlines which was fair to BA. Even if a solution were found, there was still the possibility that Sir Freddie Laker might take legal action personally. On top of that there was the prospect of still further anti-trust actions. All this was making it very difficult to see how the privatisation of BA could be achieved. The Prime Minister thought there was no point in settling with the liquidator if that made it easier for Laker himself to bring separate actions.

The Prime Minister asked whether the creation of a new BA PLC, leaving the legal liabilities with a shell company could help. Your Secretary of State said that if the effect was to limit the ability of US claimants to collect damages which they had been awarded, US Courts might allow BA's assets in the US, ie its planes, to be impounded.

He was still strongly opposed to an indemnity although BA were pressing strongly for this. He thought it might be necessary to consider ways of exerting more pressure on the US eg by a declaration that any damages awarded would not be paid or through the threat of a ticket tax to recoup the cost of any such damages. It was agreed that these issues would need to be discussed soon in the Ministerial group being set up by the Cabinet Office.

*Your sincerely
Andrew Turnbull*

ANDREW TURNBULL

Miss Dinah Nichols,
Department of Transport.