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DEPARTMENT OF TRANSPORT
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Prime Minister (2)
Difficulties!

AT

13 1 March 1985

Andrew Turnbull Esq.,
PS/Prime Minister
10 Downing Street,
London, S.W.1

Dear Andrew,

LAKER: ATTEMPTED SETTLEMENT

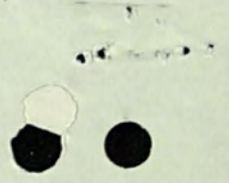
The Prime Minister will wish to know that the discussions between British Airways and Exim Bank yesterday in Washington went badly (see Washington telno 730 attached). Despite the response of the President when the Prime Minister raised the matter with him, and the fact that we know that a message was conveyed to Exim that the Administration would like to see the matter settled, Exim were not in a serious negotiating posture.

Exim claim \$65 million. This is the aggregate of the principal and interest due at the date of winding up (after deducting the value of security) plus interest since winding up. But on the assumption that this is an insolvent winding up, Jersey law would not allow post winding-up interest and would require the security to be valued in sterling at the date of the realisations. On this view, Exim would have no claim. There is an alternative view of Jersey law but even this would only entitle Exim to claim \$11.5 million. It was on this basis that British Airways had offered only a quarter of a million pounds to Exim formally as part of the settlement (the same as the other major financing creditors have in principle agreed to accept), while also offering to forego a right to draw on Exim loans which, because of changes in interest rates, would have been worth on Exim's original assessment some \$15 million to them.

Yesterday Exim opened again with their \$65 million claim. After vigorous argument they made a counter-proposal that they should receive \$50 million: \$25 million in cash as part of the settlement and \$25 million through some kind of adjustment of other transactions between themselves and British Airways (in which they would now count foregoing of drawing rights referred to above at only \$10 million.)

This posture showed the two sides as so far apart that British Airways felt they had no option but to withdraw again from the discussion.

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