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DESKBY 070830Z
FM WASHINGTON 070715Z MARCH, 1985
TO IMMEDIATE F C O
TELEGRAM NUMBER 798 OF 7 MARCH.

Summary only
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YOUR TELNO 408: LAKER

SUMMARY

1. BA HAD TWO FURTHER MEETINGS WITH DRAPER AND ALBRIGHT TODAY. AT THE FIRST DRAPER CAME DOWN TO DOLLARS 28 MILLION (SPLITTING THE DIFFERENCE BETWEEN DOLLARS 33 MILLION AND WHAT HE SAID WAS BA'S POSITION, NAMELY DOLLARS 23 MILLION) OR BINDING MEDIATION ON THE BASIS OF SEALED BIDS FROM EACH PARTY TO A MEDIATOR. AT THE SECOND MEETING DRAPER SHOWED INTEREST IN A BA OFFER OF DOLLARS 25.5M INCLUDING DOLLARS 5M NON-DRAWDOWN. RESUMPTION OF DISCUSSION ON 8 MARCH.

MT

DETAIL

2. BA MET DRAPER AFTER LUNCH. DRAPER REVEALED THAT HE HAD TALKED TO REGAN BUT DID NOT SAY WHEN. HE HAD ALSO TALKED TO WALLIS. NEITHER HAD GIVEN HIM ANY INDICATION THAT IN THE ADMINISTRATION'S VIEW THE MAXIMUM AMOUNT EXIMBANK COULD EXPECT TO OBTAIN WAS DOLLARS 20-22 MILLION. MOREOVER THE STATE DEPARTMENT HAD TOLD HIM THAT ACCORDING TO THE BRITISH EMBASSY (SAC), BA'S OFFER WAS DOLLARS 23 MILLION. HE THEREFORE PROPOSED TO SPLIT THE DIFFERENCE BETWEEN DOLLARS 33 MILLION (PARA 6 OF MY TELNO 783) AND DOLLARS 23 MILLION, PRODUCING DOLLARS 28 MILLION. ALTERNATIVELY WALLIS HAD SUGGESTED TO HIM THAT THE TWO PARTIES SHOULD AGREE ON A MEDIATOR. EACH PARTY WOULD GIVE THE MEDIATOR SEALED BIDS AND THE MEDIATOR, IN A BINDING DECISION, WOULD CHOOSE WHICHEVER BID WAS FURTHEST FROM EITHER PARTY'S POINT OF DEPARTURE (WHICH HE SPECIFIED AS DOLLARS 33 MILLION AND DOLLARS 23 MILLION). HE TURNED A DEAF EAR TO BA'S INSISTENCE THAT DOLLARS 23M WAS NOT THEIR POSITION AND THAT EXIMBANK COULD NOT LEGITIMATELY CLAIM INTEREST ARISING AFTER THE LIQUIDATION, SO THAT THE MAXIMUM POSSIBLE CLAIM WAS DOLLARS 21-22 MILLION. DRAPER INSISTED THAT THE ADMINISTRATION HAD CONVEYED NO SUCH MESSAGE TO HIM. BA AND EXIMBANK AGREED TO MEET AGAIN AT SIX IN THE EVENING.

3. MINISTER COMMERCIAL TELEPHONED THE STATE DEPARTMENT, GETTING MORRIS, TO CLEAR UP POSSIBLE STATE DEPARTMENT MISUNDERSTANDINGS AND HAVE THAT CLARIFICATION CONVEYED TO DRAPER. MORRIS SAID THAT HE WAS UNDER NO MISAPPREHENSION THAT BA WERE OFFERING DOLLARS 23 MILLION: HE HAD UNDERSTOOD PERFECTLY FROM YESTERDAYS CONVERSATION (PARA 9 OF MY TELNO 783) THAT BA'S OFFER WAS DOLLARS 18.2 MILLION: HE/WALLIS HAD CONVEYED THIS TO EXIMBANK. ALTHOUGH HE HAD UNDERSTOOD THAT BA WERE PREPARED TO TALK ABOUT BRIDGING THE GAP BETWEEN

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DOLLARS 18.2 MILLION AND DOLLARS 30 MILLION, HE HAD DELIBERATELY NOT CONVEYED THIS TO EXIMBANK. HE COMMENTED THAT DOLLARS 23 MILLION WAS IN ANY CASE A FIGURE WITHOUT ANY PARTICULAR MEANING IN THE CONTEXT OF BRIDGING A GAP BETWEEN DOLLARS 18.2 AND DOLLARS 30 MILLION. HE WAS UNABLE TO SUGGEST HOW DRAPER HAD GOT HOLD OF IT. MORRIS FURTHER SAID THAT, WHILE IT WAS TRUE THAT THE ADMINISTRATION HAD NEVER SUGGESTED ANY PARTICULAR FIGURE TO DRAPER AT WHICH HE SHOULD SETTLE, IT HAD BEEN MADE ABUNDANTLY AND STRONGLY CLEAR TO HIM BOTH THAT THE PRESIDENT WANTED A SETTLEMENT AND THAT IN US AS WELL AS JERSEY LAW, EXIMBANK WAS NOT ENTITLED TO POST LIQUIDATION INTEREST.

4. MORRIS ALSO SAID, ON THE MEDIATION POINT, THAT WALLIS HAD CONVEYED TO DRAPER THE TECHNIQUE SHULTZ HAD USED IN HIS DAYS AS A LABOUR MEDIATOR. THIS WAS INDEED A SEALED BID APPROACH WITH THE MEDIATOR'S DECISION BINDING, BUT THE GROUND RULES WERE AGREED BETWEEN THE TWO SIDES FIRST AND IT WAS NOT NECESSARY THAT THE MEDIATOR SHOULD ACCEPT THE BID OF THE PARTY WHICH HAD MOVED FURTHEST NUMERICALLY FROM ITS STARTING POSITION.

5. MINISTER COMMERCIAL ALSO SPOKE TO DAWSON, REGAN'S EXECUTIVE ASSISTANT IN THE WHITE HOUSE (WHO, WE HEARD FROM OTHER SOURCES, SPOKE TO ALBRIGHT THIS MORNING TO GIVE HIM AN ACCOUNT OF MY PHONE CALL TO REGAN). HE SAID THAT FOLLOWING MY TELEPHONE CONVERSATION WITH REGAN LAST NIGHT, THE TALKS NOW LOOKED AS IF THEY MIGHT BE HEADING FOR BREAKDOWN. DRAPER WAS SHOWING HIMSELF UNABLE OR UNWILLING TO RECOGNISE THAT BA COULD NOT POSSIBLY PAY EXIMBANK 100 PER CENT AND MORE OF THEIR MAXIMUM POSSIBLE ENTITLEMENT. AGREEMENT WITH EXIMBANK ON SUCH TERMS WOULD HAVE A MASSIVE ESCALATOR EFFECT AND DESTROY THE SETTLEMENT WITH THE OTHER PARTIES INVOLVED. DRAPER MIGHT OF COURSE MERELY BE NEGOTIATING TOUGHLY, BUT IF HE MEANT WHAT HE WAS SAYING (AND CROWE EXPLAINED WHAT THAT WAS) SUCCESS WAS IMPOSSIBLE. DAWSON SAID HE WOULD 'TAKE IT UP'

6. WHEN BA MET DRAPER AGAIN AT 6.00PM, DRAPER - AWKWARDLY BUT DELIBERATELY - SET ABOUT DISAVOWING THAT THE BRITISH EMBASSY HAD BEEN THE SOURCE OF THE ALLEGED DOLLARS 23M BA OFFER AND ALLUDED VAGUELY TO AMBASSADOR PRICE AS THE SOURCE. ON THE SUBSTANCE BA SAID THAT THEY WERE PREPARED TO GO UP TO DOLLARS 21M - 22M SUBJECT TO CLEARING WITH HMG AND OTHER CREDITORS AND DEFENDANTS. DRAPER INDICATED ACCEPTANCE OF DOLLARS 21M-22M PROVIDING THIS EXCLUDED NON-DRAWDOWN, ON THE BASIS THAT IT WAS VALUELESS. THIS HAD TO INCLUDE DOLLARS 8M OR WHATEVER LAKER RECEIVED IN CASH, THE BALANCE TO BE MADE UP IN INTEREST ADJUSTMENT. BA IMPLICITLY REJECTED THIS. MARSHALL MADE THE POINT THAT BA WERE CONSIDERING BUYING FURTHER 757S AGAINST THE DRAWDOWN, BUT THAT EXIMBANKS ATTITUDE MADE SUCH A PURCHASE DIFFICULT. HE OFFERED INSTEAD DOLLARS 25.5 INCLUDING DOLLARS 10M NON-DRAWDOWN. EXIMBANK REJECTED THIS. MARSHALL THEN SUGGESTED DOLLARS 25.5M, INCLUDING DOLLARS 5M NON-DRAWDOWN. EXIMBANK WERE INTERESTED ON THE BASIS

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THAT THIS INCLUDED DOLLARS 8M, OR WHATEVER LAKER RECEIVED, CASH. BA MADE CLEAR THEIR BASIS, NAMELY CLEARANCE WITH HMG AND WITH OTHER CREDITORS FOR KNOCK-ON EFFECT. IT WAS AGREED TO DISCUSS FURTHER ON 8 MARCH AFTER FURTHER REFLECTION BY BA.

7. DRAPER IN THE COURSE OF THE DISCUSSION POINTEDLY ASSERTED THAT
A. NOBODY TOLD HIM WHAT TO DO ON FIGURES
B. AMBASSADOR PRICE IN PARTICULAR HAD NO AUTHORITY OVER HIM.

8. LIKEWISE - FOR WHAT IT IS WORTH - DURING THE DISCUSSION EXIMBANK VALUED HALF OF THE NON-DRAWDOWN AS DOLLARS 60M RATHER THAN DOLLARS 45M.

9. AFTER THE MEETING DRAPER PHONED MARSHALL BY PRE-ARRANGEMENT. HE SAID THAT EXIMBANK'S CALCULATION OF THE PRESENT VALUE OF THE INCREASED INTEREST ON BA LOANS WAS BASED ON EXIMBANK'S CURRENT COST OF LENDING AT 11.5 PERCENT. BA'S CALCULATION HAD BEEN BASED ON THEIR CURRENT LOAN RATE OF 9.25 PERCENT. EXIMBANK'S CALCULATION WOULD REQUIRE A CORRESPONDINGLY LARGER INCREASE IN INTEREST RATES TO ACHIEVE THE SAME PRESENT VALUE. MARSHALL SAID HE WAS RETURNING TO LONDON TONIGHT (WEDNESDAY) AND WOULD RETURN ON 8 MARCH. DRAPER SUGGESTED THAT HE AND MARSHALL COULD SETTLE THE MATTER BY TRANSATLANTIC TELEPHONE CONVERSATION. (PARK REGARDED THIS AS UNREALISTIC AND EXPECTS MARSHALL TO RETURN).

10. WE UNDERSTAND BA ARE CALCULATING HOW THEY COULD MAKE UP THE DOLLARS 20.5M (DOLLARS 25.5 LESS DOLLARS 5 NON-DRAWDOWN) WHICH MARSHALL HAS PUT ON THE TABLE. THE QUESTION ARE HOW MUCH OF THIS COULD BE CASH OR NEAR CASH TO WHICH BA COULD EXPECT THE OTHER DEFENDANTS TO CONTRIBUTE AND HOW TO AVOID KNOCK-ON EFFECT ON THE OTHER CREDITORS. BA HAS MADE AN INITIAL APPROACH TO MCDONNELL DOUGLAS WHOSE CONCERN WAS NOT HOW MUCH EXIMBANK GOT BUT THAT THEY (MCDONNELL DOUGLAS) SHOULD GET NO LESS THAN THEIR COMPETITORS AIRBUS.

11. NEITHER WE NOR PARK SEE ANY BASIS FOR FURTHER INTERVENTION BY US WITH THE ADMINISTRATION BEFORE THE NEXT ROUND ON FRIDAY.

12. FCO PLEASE PASS ADVANCE COPIES TO: PS/SECRETARY OF STATE, PS/NO 10, PS/SECRETARY OF STATE FOR TRADE AND INDUSTRY, PS/ATTORNEY GENERAL, PS/FINANCIAL SECRETARY, PS/SECRETARY OF STATE FOR TRANSPORT, PS/MR RENTON (FCO), KNIGHTON, HOLMES, FORTNAM (DTP), BRAITHWAITE, O'NEILL, GRAY (FCO), AUST (LEGAL ADVISERS, FCO), AYLING (SOLS, DTI), GARDINER (LAW OFFICERS' DEPT), HEALEY, RICKFORD (DTI), GREGSON (CABINET OFFICE), WILSON (TREASURY).

WRIGHT

(ADVANCED AS REQUESTED)

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HEAD/MAED

HEAD/NAD

PS

PS/MR RENTON

PS/PUS

MR BRAITHWAITE

MR O'NEILL

COPIES TO:

ADVANCE ADDRESSEES

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