

MASTER

CONFIDENTIAL



file JR
vice R Ledwood

10 DOWNING STREET

From the Private Secretary

22 February 1984

Dear Ronan,

BRITISH AIRWAYS PRIVATISATION

Lord King came to see the Prime Minister today. He put very much the same case to her as he had done to your Secretary of State. In just over two years, BA had been turned from a loss-making airline into one of the most important and profitable in the world. The workforce had been reduced from 59,000 to 35,000. This had been achieved without industrial unrest because those remaining in the industry understood that they would eventually be working for a successful airline.

His worry was that, under pressure from the Conservative backbenchers and other UK airlines, the CAA would recommend a major re-allocation of routes. A foretaste of this was to be found in the terms in which the CAA had written to the Department of Transport about allocation of the Riyadh route to British Caledonian. Lord King did not object to this decision as such but to the suggestion in the CAA's letter that, in the interests of "competitive balance" between UK airlines, it was unlikely that further routes would be allocated to BA. This, in effect, denied BA any prospect of expansion. Lord King said that such a ruling, or worse a recommendation to take away some of BA's existing routes, would make it impossible to write an adequate prospectus. The privatisation exercise could be put in jeopardy.

Lord King denied the premise on which CAA and airlines like BCal appeared to be operating. He did not believe that competition was increased by re-allocation of routes. He was already in competition with all the other airlines flying the same routes as BA. In his view, BCal's argument was about the transfer of business and profits.

He could not agree to a reduction in the size of BA. This would undo the achievements of the past two years and would mean going back on his agreements with the BA workforce.

He was concerned that the CAA might be developing an independent policy which favoured a number of small airlines in the UK. The Secretary of State for Transport could be put in a difficult political position if their review came out with a recommendation for a major re-allocation of routes.

/The Prime Minister

RB

The Prime Minister took note of the points made by Lord King and agreed to consider them further.

BF
The Prime Minister has asked for a report on the nature of the CAA's review and the kind of recommendations which might be expected to emerge. She has asked whether there is substance to Lord King's contention that if CAA recommended a major re-allocation of routes, the Secretary of State for Transport would either be in the difficult political position of rejecting the recommendations or accepting them and putting the privatisation timetable at risk. Finally, she has asked for your Secretary of State's views on the argument that a re-allocation of routes between BA and other UK carriers would not affect competition in the industry.

Yours sincerely
Andrew Turnbull

(ANDREW TURNBULL)

Miss Dinah Nichols,
Department of Transport.

**British
airways**

Cleveland House, St. James's Square, London SW1Y 4LN
Telephone: 01-9309766

① Mr. Turnbull
② P. J.

Lord King of Wartnaby
Chairman

23rd February, 1984

The Rt. Hon. Mrs. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London, S.W.1.

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Dear Prime Minister

A short note to say it was good of you to spare the time to see me yesterday, particularly in view of the very heavy programme that you had and, on top of everything, a bad cold, which I hope will soon be better.

I came away feeling much less depressed.

My thanks & best wishes

*Yours ever
Peter*

