



*Chancellor of the Duchy of Lancaster*

PRIME MINISTER

AVIATION POLICY

Although I no longer have any official responsibility for these matters they fell within my remit when I was Secretary of State for Trade and it was during my period of office that the fortunes of British Airways were transformed by John King. You may therefore wish to have a note of my views particularly as the matter is one which also has a significant European dimension.

First we should in my view completely deregulate the domestic market. I had moved significantly in this direction when Trade Secretary: but it does require primary legislation to complete the process. On grounds of competition there is every reason for doing this.

Second to make competition effective it is essential to prohibit cross subsidization - particularly by British Airways. A mere prohibition of "predatory pricing" does not go far enough. The real danger to competition lies in British Airways using profits on its international operations to support domestic services which are uneconomic or to subsidize charter business. In the case of British Telecom cross subsidization between the major parts of the business was specifically prohibited and accounting requirements were imposed to ensure compliance. We need to go at least as far in the case of British Airways.

Third we should wherever practicable press for dual or multiple designation on European and Inter Continental routes. Action within the Community is badly overdue.

Fourth I can see no justifiable case for compulsory transfer of monopoly routes to British Caledonian or to anyone else. This has nothing to do with competition. It is simply replacing one monopolist by another. And it is doing it by transferring a large amount of profit at present accruing to a State owned enterprise to a privately owned enterprise without any consideration. Indeed one could take the view that because the result would be substantially to reduce the proceeds of privatising British Airways and substantially increase the market capitalisation of British Caledonian one was making a present of hundreds of millions of pounds of public money to a privately owned organisation. I accept there is nothing to prevent Parliament doing this by legislation: but it would be a questionable course of action.



Fifth Access to Heathrow is a crucial element in all of this. The fact that for historical reasons British Airways has preferential or in some respects virtually exclusive access to Heathrow puts the independents at a serious competitive disadvantage. I realise the difficulties involved in freer access to Heathrow. The Consultative Document recently issued is too restrictive in its approach. It still clings doggedly to ATM (number of air traffic movements) as the measuring rod. This is based on an outdated approach and this indeed was the view taken by E(DL) Committee when it saw the draft of the Consultative Document. It could well be that the adoption of an alternative measure more closely related to noise pollution would allow more intensive use of Heathrow without adding to environmental damage.

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11 September 1984