

(c) crown copyright

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

Conclusions

COPY NO 74

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on

THURSDAY 2 AUGUST 1984

at 10.30 am

PRESENT

Rt)Hon Margaret Thatcher MP gime Minister

The Rt Hon Viscount Whitelaw lord President of the Council

The Rt Hon Sir Geoffrey Howe QC MP Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Nigel Lawson MP Chancellor of the Exchequer

The Rt Hon James Prior MP Secretary of State for Northern Ireland

The Rt Hon Michael Heseltine MP Secretary of State for Defence

The Rt Hon Nicholas Edward MP Secretary of State for Wales

The Rt Hon John Biffen MP Lord Privy Seal

The Rt Hon Norman Tebbit MP Secretary of State for Trade and Industry

The Rt Hon Tom King MP Secretary of State for Employment

The Rt Hon Peter Rees QC MP Chief Secretary, Treasury

The Rt Hon Lord Hailsham Lord Chancellor

The Rt Hon Leon Brittan QC MP Secretary of State for the Home Department

Hon Sir Keith Joseph MP Secretary of State for Education and Science

The Rt Hon Peter Walker MP Secretary of State for Energy

The Rt Hon George Younger MP Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP Secretary of State for the Environment

The Rt Hon Norman Rowle Secretary of State for Social Services

The Rt Hon Lord Cockfield Chancellor of the Duchy of Jancaster

The Rt Hon Michael Jopling MP Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP Secretary of State for Transport

i

THE FOLLOWING WERE ALSO PRESENT

for Sir Michael Havers QC MP

The Rt Hon John Wakeham MP
Parliamentary Secretary, To

Parliamentary Secretary, Treasury

Mr John Gummer MP Minister of State, Department of Employment

SECRETARIAT

Sir Robert Armstrong Mr P L Gregson (Items 3-5) Mr B G Cartledge (Items 1 and 2) Mr M S Buckley (Items 3-5)
Mr G Stapleton (Items 1 and 2)

CONTENTS

ltem		
1.	FOREIGN AFFAIRS Subject	Page
2.	Hong Kong COMMUNITY AFFAIRS	1
3.	Community Budget and United Kingdom Refunds	3
	INDUSTRIAL AFFAIRS	
4.	Coal Industry Dispute	4
	ECONOMIC AFFAIRS	
	Privatisation of British Telecom	4
5.	Unemployment	4
	CIVIL AVIATION AUTHORITY REVIEW	5

ii

AFFAIRS Hong Kong

Previous Reference: CC(84) 28th Conclusions, Minute 2 1. THE PRIME MINISTER said that the Cabinet would wish to welcome the Foreign and Commonwealth Secretary on his return from conducting a very successful negotiation in Peking on the future of Hong Kong.

THE FOREIGN AND COMMONWEALTH SECRETARY, reporting on the progress and batcome of the negotiation, said that the most difficult issue had been that of the location and other arrangements for the proposed wint Anglo-Chinese Liaison Group. After hard negotiations on a larly and until midday on 29 July, the Chinese had finally moved towards the United Kingdom position. The outcome had been agreement that the Joint Group would operate on terms of reference very close to those proposed by the British Government; that the Joint Group would not be located in Hong Kong until July 1988; that the functions of the Group would be divided into two equal periods; and that the Joint Group would continue to operate until the year 2000. The Executive Council (EXCO) in Hong Kong attached particular importance to this last provision, since it was perceived in Hong Kong as Providing some assurance of continuing British involvement there after 1997.

The high priority which the Chinese had attached to resolving the questions relating to the Joint Group had enabled the British team to achieve agreement on acceptable terms on virtually all the other major outstanding issues. These included the adoption of language which made the main Agreement and its Annexes equally binding; the provision that the main agreement and its Annexes would be stipulated in the Chinese hasic Law; specific acknowledgment in the Agreement that the United Kingtonn would remain responsible for Hong Kong until 1997; and the removal of some prejudicial language concerning sovereignty from the officese draft. The text of six of the Annexes to the main Agreement had now been virtually agreed, although hard work remained to be done in the others, in particular those concerning land, nationality and civil aviation. On nationality, the prospects were reasonably good, and the Chinese seemed likely to meet our requirements concerning freedom of movement in and out of Hong Kong.

In sum, it could be said that a breakthrough in the negotiations had been achieved: a number of rocks still lay ahead, but they were fewer and smaller than had earlier seemed likely. EXCO, to whom he had reported on his way back from Peking, had reacted favourably; Sir S Y Chung had been generous and statesmanlike in his attitude and had been supported in this by Miss Lydia Dunn.

Summarising his impressions of the negotiations in Peking the Foreign and Commonwealth Secretary said that the role of the Chinese Prime Minister, Mr Zhao Ziyang, seemed to have been crucial. It was he who had conceded the final six months of the delay in locating the Joint Group in Hong Kong, and who had confirmed the specific provisions concerning its functions. He had also met the Chairman of the Central Advisory Committee of the Chinese Communist Party Deng Xiaoping, who had interrupted his holiday for their meeting on

31 July. The first half hour of the meeting had been given over to the discussion of East-West relations. When the conversation eventually turned to the subject of Hong Kong, Deng Xiaoping had spoken at length about his concept of two systems in one country; he had also voiced all his familiar fears concerning the period before 1997, including the possiblity of a flight of capital from Hong Kong. The Foreign and Commonwealth Secretary had done his best to remove these apprehensions, and to implant in Chinese minds the that movement of capital depended not on assertions by statesmen but on the decisions of individual investors: hence the importance of maintaining the attraction of Hong Kong to investment during the period before 1997. Deng Xiaoping had said with solemnity that in the course of the negotiations concerning Hong Kong, the Chinese side had taken a decision to put its trust in the British Government.

The Foreign and Commonwealth Secretary said that one advantage of the proposed Joint Group would be that it would provide opportunities to educate the Chinese in the operations of capitalism. Current developments in him itself might assist this process. He had heard a great deal in the about the success of the new agricultural policy and of the increasing prosperity and economic weight of the peasants which had, example, created surplus demand in the construction industry. A significant shift was taking place in Chinese economic perceptions.

In discussion, the following points were made -

- a. The British Government's deep concern that it might not be able to discharge adequately its duty to the people of Hong Kong had now been greatly eased. Although predictions that the Chinese would be tought up to and beyond the eleventh hour had been vindicated, their thist had nevertheless been won.
- b. The change in Chinese economic attritudes provided important opportunities, in particular to the United Kingdom which would be working closely with the Chinese during the transitional period in Hong Kong before 1997. The United Kingdom would have a chance to exert influence on Chinese thinking on wider issues as well, at a time when China's fear of the Soviet Union remained obsessive but when, equally, the Chinese Government did not wish to be associated too closely with the United States. The negotiation, although it still had to be brought to a successful conclusion, was the most substantial and important in which the Chinese had engaged with any foreign, let alone Western, Government. The period following an agreement, in which the Chinese themselves clearly visualised wider contacts with the United Kingdom, could offer significant commercial well as diplomatic opportunities.

Although there could be no effective insurance against an adverse shift in Chinese attitudes after 1997, the fact remained that Hong Kong had survived until now only by virtue of Chinese tolerance and of Chinese respect for the existing Treaty despite their reservations concerning it. In place of the Treaty, there would now be a solemn Agreement. It was significant that Deng Xiaoping had referred frequently, during the latest discussions, Do Taiwan.

THE PRIME MINISTER, summing up the discussion, said that although some issues, such as the problem of nationality, still had to be resolved it now seemed that the Chinese were prepared to accept an agreement to a considerable extent on British terms; this was a matter for considerable satisfaction. The United Kingdom had won Chinese trust and this offered important opportunities for the future. It would be essential, in any public comment or statement before the Agreement was concluded, for British Ministers to avoid going beyond the terms of the Foreign and Commonwealth Secretary's statement to his press conference in Hong Kong on 1 August, which represented the limit of what could be said in public at this stage. The text of that statement, which was being placed in the Library of the House of Commons, should be virtualized to all members of the Cabinet.

The Cabinet -

Took note with approval of the Foreign and Commonwealth Secretary's negotiations in Reking and of the Prime Minister's summing up of the discussion.

THE FOREIGN AND COMMONWEALTH SECRETARY reported that there had been no further developments on the commerssion's proposals for a supplementary Community budget for 1984 since the regrettable decision of the new European Parliament to hold up the transfer of the funds for the United Kingdom's 1983 refund from the reserve chapter of the 1984 budget until the supplementary budget was put to it.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Community

Budget and

United Kingdom

Refunds

Previous

Reference: CC(84) 28th

Conclusions, Minute 3



INDUSTRIAL AFFAIRS Coal Industry Dispute

3. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

Previous
Reference:
CC(84) 28th
Conclusions,
Minute 4

ECONOMIC AFFAIRS Privatisation of British Telecom

4. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that important steps in the privatisation of British Telecom (BT) were in progress. The previous day the Minister of State, Department of Trade and Industry (Mr Baker) had made an announcement about the incentives which would be a silable to telephone subscribers to take up shares in BT when privatised. At the weekend, the status of BT would change from that of spillic corporation to that of a company under the Companies Acts and the Director General of the Office of Telecommunications, the rew regulatory body, would take up his duties. On 20 August a substantial advertising campaign would begin in preparation for the flotation.

The Cabinet -

1. Took note.

Previous
Reference:
CC(84) 13th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR EMPLOYMENT said that the July unemployment statistics published that day would show a pise of 71,000 in the "headline" figure and 16,000 in the seasonally adjusted figure. In public comment he would acknowledge that the figures were disappointing, but explain that they were difficult to interpret because the seasonal adjustment might not properly reflect current patterns in school leaving and the effect of the Youth Training Scheme. He would draw attention to the encouraging figure for vacancies which had risen on a seasonally adjusted basis for five successive months, to the fact that the level of unemployment was partly the result of an increase in the numbers becoming available for work for demographic and other reasons, to the good prospects for the economy, and the extent to which strikes put jobs at risk.

The Cabinet -

2. Took note.

CIVIL AVIATION AUTHORPTE REVIEW

5. The Cabinet considered a memorandum by the Secretary of State for Transport $(C(84)\ 21)$ on civil aviation. The Cabinet's discussion is recorded separately.

Previous
References:
CC(84) 27th
Conclusions,
Minute 1 and
CC(84) 28th
Conclusions,
Minute 1

Cabinet Office

2 August 1984

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 14

CABINET

LIMITED CIRCULATION ANNEX

CC(84) 29th Conclusions, Minute 3

Thursday 2 August 1984 at 10.30 am

INDUSTRIAL AFFAIRS

Industry Dispute

Previous Reference: CC(84) 28th Conclusions, Minute 4 THE SECRETARY OF STATE FOR ENERGY said that pits fully working numbered 20 with a further 26 on holiday. There were also six pits with some production with a further three on holiday; and there were three pits with some workers in attendance. It was difficult to interpret the trend in attendances because of holidays but there was evidence that groups of miners in various localities might return to work shortly. A small attendance had been maintained at the Bilston Glen pit in Scotland and it was hoped that a further 12 miners would return to work after the weekend. Picketing was now light or non-existent both there and at other sites such as the Orgreave coke depot where there had previously been heavy and violent picketing. It was thought that the total number of active pickets was currently around 3,500 compared with 10,000 earlier in the dispute. Despite problems over the running of coal trains and the holiday in the Nottinghamshire coalfield, there had been substantial coal deliveries. Power station coal stocks had been run down by 220,000 tonnes in the previous week.

THE SECRETARY OF STATE FOR EMPLOYMENT SATE that, following the action brought against the South Wales area of the National Union of Mineworkers (NUM) by two road haulage companies, the South Wales area had failed to pay a fine of £50,000 for contempt of court within the time set and sequestrators had been appointed to seize their assets. The sequestrators would probably be able to carry out their duties Without entering the South Wales area offices where a demonstration had been mounted. The fact that there had recently been little or no Picketing at Port Talbot suggested that the South Wales area might be trying to avoid further breaches of the injunction granted against them. The NUM President, Mr Scargill, had met other left wing trade union leaders the previous day and there might be demonstrations in support of the NUM and against the employment legislation. Mr Scargill had referred publicly to the decision of the Wembley Conference of the Trades Union Congress (TUC) to give fraternal support to union affected by the employment legislation. The authorisation of such support was a matter for the TUC General Council and had to be conditional on observance of the TUC disputes procedure covering matters as the number of pickets. It was not clear whether Mr Scargol? would wish to bring the dispute within the official ambit of the Tue

THE HOME SECRETARY said that the figures for arrests in connection with intimidation had increased markedly, possibly indicating a greater readiness to report such offences. It was thought that the Police now had intimidation well under control in Nottinghamshire but there had been a less effective effort in Derbyshire, possibly because of local problems with the Police Authority, and he was seeing whether anything could be done to improve the situation.

Secretary of State for Trade and industry said that the British Steel Corporation (BSC) was faced with delicate situations both at Immirphar and at Hunterston. At Immingham the training of dockers to operate front loaders for the handling of iron ore would be completed by 8 August. The dockers had indicated that they would load trains but no iron ore trains would be available because of industrial action by the rail unions. If the dockers refused to load lorries, procedures under the National Dock Labour Scheme would take their course during the remainder of the week. The Scunthorpe plant had enough iron ore to last until some time in September, the precise date depending on the extent of deliveries through small wharves on the Trent. At Hunterston a coal ship would be docking at the weekend. Unless the coal could be delivered to Ravenscraig that plant would have a cease operations within about three weeks. Dock workers were involved only in moving the coal within the hold of the vessel and some a per cent of the coal could be unloaded without their assistance. The BSC Chairman, Mr Haslam, would consider very carefully the steps to be taken locally and also the advisability of civil action in the courts, and would be in touch with him before any decisions were taken. He would in turn keep in close touch with other Ministers concerned. The undesirability of precipitating industrial action in the docks was well understood.

THE PRIME MINISTER, summing up the discussion, said that, for the time being, it would be appropriate for Ministers to adopt a low profile in public comment. The main message to the put across was that there was no industrial reason for the strike. The Chairman of the National Coal Board, Mr MacGregor, had put out a statement the previous day explaining how well the closure procedures had worked in the past. No Government had done or could be expected to have done more to support the coal industry and to ensure that miners were well paid and had the benefit of generous redundancy terms. The miners still on strike had been deprived of a ballot. It should therefore be made clear that the motivation for the strike could only be political. Throughout August the Secretary of State for Energy would arrange for daily meetings, chaired by a Department of Energy Marister, which would be attended by representatives of the Departments mainly concerned. A written report would be circulated after each meeting to members of the Ministerial Group on Coal (MISC 101). A true for use in the media would be agreed daily and guidance could be obtained by Ministers from the Department of Energy and the Press Office of 10 Downing Street.

The Home Secretary, the Chancellor of the Exchequer and the Secretaries of State for Trade and Industry, Employment and Transport Would ensure that a Minister from each of their Departments was available in Britain at all times throughout August to receive reports and take part in whatever discussions, by telephone or at meetings, were required. If, during her absence, it was essential for the Ministerial Group on Coal to meet to consider an issue of policy, the Lord President of the Council or, if he was unavailable, the Home Secretary, would chair the meeting.

The Cabinet -

Took note.

Cabinet Office

3 August 1984

Sir Robert

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

CABINET

LIMITED CIRCULATION ANNEX

CC(84) 29th Conclusions, Minute 5

Thursday 2 August 1984 at 10.30 am

IVIL WIATION

UTHORITY

EVIEW

revious

eferences: C(84) 27th onclusions, Laute 1, and

C(84) 28th onclusions, inute 1

The Cabinet considered a memorandum by the Secretary of State for Transport (C(84) 21) on civil aviation.

THE SECRETARY OF STATE FOR TRANSPORT said that on 16 July the Civil Aviation Authority (AA) had published a report on the implications of the privatisation of British Airways (BA) for competition and the sound development of the British airline industry. Among other things the report had proposed that BA should relinquish scheduled service routes out of Manchasters. Manchester and Birmingham to a wide variety of destinations in Western Europe; between Glasgow and Paris; between Heathrow and Saudi Arabia and between Heathrow and Hararer and between Gatwick and points in Spain, Portugal, Gibraltar, Italy and Scandinavia. Apart from the Manchester and Birmingham routes, which would pass to smaller airlines, the routes concerned would be likely to be awayded by the CAA to British Caledonian (BCal). When the Ministerial Steeting Committee on Economic Strategy, Sub-Committee on Economic Affairs (E(A)), had considered the report, a Sub-Committee on Economic Affairs (A), had considered the report, a majority had favoured rejecting the recommendations regarding route transfers. When the conclusions of the Sub-Committee were reported to the Cabinet on 19 July the Cabinet agreed that the best solution would be a compromise which would provide for an agreed transfer of routes from BA to BCal. After discussions which he and the Chancellor of the Exchequer had held with the Chairmen of the two airlines, he had concluded that no compromise transfer could be agreed. Discussions with the Chairman of BCal, Sir Adam Thomson, had established that the order of importance to BCal of the routes in question was as follows:

- Saudi Arabia (estimated profit for 1985-86 of £30 million).
- 2. Harare (estimated profit of £7½ million).
- Routes from Gatwick to Madrid, Lisbon, Barce Kona and Bilbao (estimated profit of £3 million).

He judged that Sir Adam Thomson was not interested in the owner If BCal was offered these routes, it would probably be able to take the money needed for the investment they would require. They would require monopoly-type profits to BCal, and by strengthening the airline base give it continuing financial strength to compete with BA and other

airlines. BA claimed that the transfer of routes would delay privatisation. His financial advisers (the merchant bank Hill Samuel) believed that this was true of the routes to Saudi Arabia and Harare, but not of the Gatwick-Iberia routes if BA showed goodwill. In his view in the might also be possible to transfer the Harare route with such goodwill. The Chairman of BA, Lord King, and his Board were absolutely opposed to transfer: he saw no prospect of the Board voluntarily changing their Rossoion.

The dovernment thus faced a choice. One option would be to reject the route transfers suggested by the CAA and argue that they would add nothing to creating competition in the airline industry. BCal would probably then seek a metter with BA. If this were denied, the airline would probably not be able to expand. If it then, for other reasons, ran into cash flow problems, it might have to go out of business. This would leave only one major British scheduled international carrier, reduce the pressure on BA to be efficient, and make it harder to liberalise air transport in Europe. The alternative was to insist on the transfer of sufficient routes to strengthen BCal's position. A possible package would be the routes out of Gatwick to Madrid Liebon, Barcelona and Bilbao, plus the Harare route from Heathrow. This would require the Board of BA to show public and practical co-operation and the Board of BCal to accept that the package was adequate. It would be necessary to see whether the two parties could be persuaded to accept the compromise before a final decision was made. The Government would, however, have influence over BA by the threat of legislating to require them to relinquish certain routes or by using its powers as sole shareholder, have influence over BA by the threat of legislating to require them to relinquish certain routes or by using its powers as sole shareholder, begislation would be short but highly controversial. Use of shareholder, so powers would be equally controversial in that it would bypass Parliament, It was conceivable, but in his opinion unlikely, that the Board of BA might resign. There might also be damaging adverse reactions from the staff.

In his view, the Government would face a serious situation if it failed to act in response to the CAA's recommendations. The independent airlines saw little prospect of their being able to compete successfully against a privatised BA of its present size and strength. The airline was already beginning to behave aggressively in important markets. The Government could well find itself obliged, when BA was privatised, to allow the airline to retain a substantial part of the sale proceeds in order to strengthen its balance sheet; it might also have to provide some form of indemnity or other financial support in the face of current legal actions in the United States arising out of the collapse of taker Airways. Such action would be criticised as an unfair further superprehening of BA's already dominant position. If, as was quite conceivate most or all British airlines in competition with BA were driven out of business, the Government would be regarded as having connived at the disappearance of competition. That would be entirely contrary to its economic philosophy.

In discussion, some members of the Cabinet considered that the route transfers proposed by the CAA would do nothing to foster general competition: they would simply transfer monopoly rights from one airline to another. Their main effect would be to weaken BA to the benefit of its overseas competitors. No doubt BA would be likely to dominate the United

Kingdom airline market and to behave more aggressively once it had been privatised; but that was inherent in the existing situation and in the Government's decision, which was not in dispute, to privatise BA. Other members of the Cabinet argued that the ability to earn monopoly-type profits on overseas routes was a precondition for effective competition on those routes which could be flown by more than one British airline. It was essential in the interests of competition to ensure that the United Wingdom had at least one international carrier other than BA.

The rollowing main points were also made -

The legal actions in the United States arising out of the collabse of Laker Airways were a serious complicating factor. The total potential liabilities involved were of the order of \$2 billion, though no doubt, as was common in the American courts, the claims had been greatly exaggerated. The existence of these potential liabilities might greatly delay the privatisation of BA by deterring prospective investors. There were possible measures that might avoid this: the Government might give an indemnity to BA (though this would both ais cerious difficulties of principle and make it more difficult to gett) the actions quickly and at a reasonable cost); the potential intribity was an insurable risk; and it might be possible to reach settlements out of court. It was not clear whether a satisfactory solution could be found in time for a flotation of BA in the first half of 1985. The Government would be criticised if it turned down the CAA's proposals in the interests of early privatisation of BA only to find subsequently that this was in any event precluded by the legal actions in the United States. Against this it was argued that uncertainties over the legal action could take a long time to resolve. It was neither necessary nor desirable to defer a decision on the CAA's proposals until those uncertainties had been cleared up.

- b. The Government had given commitments, both in Parliament and to the management and workforce of BA to the effect that BA would be privatised in its present form, and that there would be no arbitrary reallocation or hiving-off of routes. Moreover, the staff of BA had been induced to accept heavy redundancies by, among other things, assurances based on the Government's commitments. It would be difficult if not impossible to reconcile the proposals of the Secretary of State for Transport with those assurances and commitments.
- C. It was possible, though uncertain, that it in exercise of the Government's powers as sole shareholder, an instruction was issued to the Board of BA to relinquish routes, the Board would refuse to accept it on the grounds that it would entail a breach of their fiduciary duty to future shareholders and present employees. The matter could be put beyond doubt by inserting an appropriate provision in the Articles of Association; but that would undoubtedly be very contentious.

- d. Although route licences were not property (they could not, for example, be bought and sold) they were nevertheless valuable assets in that they provided opportunities to make substantial profits. Some members of the Cabinet argued that it would be difficult to justify the arbitrary transfer of such assets from the public sector to a private company without valuable consideration. The Government was, in effect, a trustee for the taxpayer and should not simply give public assets away. It had sharply criticised, and promoted legislative action against, such behaviour by the Greater London Council. At the very least, it would be essential to secure clear and explicit Parliamentary approval for the transfers. Against this, it was pointed out that it had long been public policy that route leaves were awarded and transferred without payment. BA had not paid for the licences which it held; and BCal had been brought into existence by the award of licences.
- e. Even if the view was taken that the transfer of routes was justified, and BCal was awarded the relevant licences by the CAA, it was arguable that the airline would still not have a strong enough position to compete effectively against BA. The transfer would thus antagonise the Board and workforce of BA and expose the Government to serious public erroicism without achieving any useful result of substance.
- f. For that reason, some members of the Cabinet thought that it was necessary to go further than proposed by the Secretary of State for Transport and to aim at transferring additional routes, such as those to Saudi Arabia. Other members, however, thought that BA would be bound to object so strong I to this that it was not a practical course of action.
- S. There was much to be said for subjecting the airline industry to scrutiny by the Office of Fair Tracing and the Monopolies and Mergers Commission, rather than the CAA, particularly as regarded competition on domestic routes. The CAA's approach was to allocate rights according to its own view of the destrable structure for the industry rather than the requirements of the market.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were unable to reach a decision. They would return to the issues in September. In preparation for that the Secretary of State for Transport should prepare a further paper. This should assess the treet which the various proposals for route transfers would have on the viability of BA, BCal and the other United Kingdom airline companies and how far any such transfers would in practice significantly improve competition for the benefit of the United Kingdom consumer, and strengthen the United Kingdom irline industry as a whole against foreign competition. The paper should also set out in detail the steps which would need to be taken, whether by the use of the Government's powers as sole shareholder in BA or by legislation, to effect any route transfers, and assess the risks of legal challenge to such action. It should consider the Parliamentary implications, including the possible attitude of the Public Accounts Committee to the transfer of assets from the public sector to a private sector company without recompense; and all other relevant considerations.

The paper should in addition set out the situation on the legal actions in the United States with an assessment of the likely timetable and outcome, and of the steps open to the Government to deal with the situation. She would arrange for a small group of Ministers under her chairmanship to give preliminary consideration to the issues before the Cabinet resumed their discussion.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Greed to resume their discussion in September.

3. In preparation for that discussion, invited the Secretary of State for Transport, in consultation with the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Attorney General, to circulate a paper on the lines described by the Prime Minister in the Summing up.

Cabinet Office

6 August 1984

