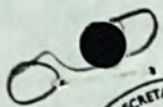


CONFIDENTIAL

File



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Tim Flesher Esq  
10 Downing Street  
LONDON  
SW1

Note.

(A) Spoke to Richard Allan D/TIP has been in contact with N Sproat who says (i) he has nothing with the Rowland was not secret (ii) he did not relay a request from the Prime Minister to Laker to assist Laker.  
15 July 1985

RT 16/7

Dear Tim,

(B) PM denies knowledge also of any such requests.

As promised, I attach briefing for Prime Minister's Questions tomorrow about the Laker litigation and British Airways' privatisation. Please note that the background note is classified confidential.

My Secretary of State has asked that the Prime Minister's attention be drawn to paragraph 8 of the background note which refers to claims by Lonrho that she was involved in requests for Lonrho to assist Laker after Laker's collapse. (For further background see the attached transcript of Mr Rowland's broadcast on the "Today" programme today.) We have not, so far, found evidence for this claim in the Department's records; but the Prime Minister will wish to be aware of the claim and may, as appropriate, wish to rebut it.

Yours,  
Richard.

R A ALLAN  
Private Secretary

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SETTLEMENT OF LAKER LIQUIDATOR'S ACTION

Q1. WILL THE GOVERNMENT NOW FIX A DATE FOR PRIVATISING BRITISH AIRWAYS?

A1. We wish to privatise BA as soon as possible. Settlement of the Laker liquidator's action is a first step, but there is also a class action in the US courts against BA and two American airlines. Negotiations to settle that are at a very early stage, and BA cannot forecast how long it will take to clear it up.

Q2. WILL BA BE PRIVATISED AS SOON AS THE CLASS ACTION IS SETTLED?

A2. Hope so, but don't know how long that will be. Other technical factors will need to be taken into account, eg finding a place in the Stock Exchange queue, allowing time for proper marketing.

Q3. NOW THAT A SETTLEMENT SEEMS CERTAIN WHY NOT INDEMNIFY BA AGAINST THE EXPECTED COST SO THAT PRIVATISATION CAN GO AHEAD AT ONCE?

A3. It is for BA to decide whether to settle litigation against them and on what terms, in the light of their commercial judgment.

Q4. DID HMG PRESS BA TO SETTLE WITH THE LIQUIDATOR TO ENABLE PRIVATISATION TO GO AHEAD?

A4. No. The directors of BA decided that it was in the company's commercial interest to seek a settlement at the present time, and that the terms finally obtained were acceptable.

Q5. HOW MUCH WILL THE SETTLEMENT COST BA? (ANY OTHER QUESTIONS ABOUT THE DETAILS OF THE SETTLEMENT)

A5. That is a matter for BA.

Q6. DOESN'T THE FACT THAT THE AIRLINES HAVE HAD TO PAY A LARGE SUM IN SETTLEMENT MEAN THAT THEY WERE GUILTY?

A6. No. The defendants have not admitted liability. One of the objectionable features of the US system is that most of the costs are not recoverable if the defence succeeds.

Q7. DO YOU THINK IT RIGHT THAT LAKER SHOULD BE OFFERED \$8M?

A7. It is deplorable that this case should have been brought and that any payments should have to be made. Who should be included in the settlement is for the commercial judgment of the defendants.

Q8. SHOULD LONRHO BE COMPENSATED, AS MR ROWLANDS ALLEGES THAT HMG ENCOURAGED THEM TO REHABILITATE LAKER?

A8. As far as I am aware, Lonrho have no grounds for any legal action. They have no claims on the Government.

Q9. APPLICATION OF ANTI-TRUST TO CIVIL AVIATION.

A9. HMG does not accept that US anti-trust law should apply to civil aviation, which is regulated by international agreements. Deplorable that UK airlines should have to make expensive settlements in cases which should never have been brought. HMG has had various discussions with the US administration but latterly has been holding back to await the outcome of the present attempts to settle out of Court. We will be looking for a resumption of discussions when they have been settled.

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PRIME MINISTER'S QUESTIONS: TUESDAY 16 JULY

BRITISH AIRWAYS: SETTLEMENT OF LAKER LIQUIDATOR'S ACTION

BACKGROUND NOTE

Settlement Terms

1. It is for BA to explain the terms of the settlement. HMG's approval as shareholder was not required. BA's press release on 12 July gave the following figures.

	\$m
Payments to creditors (estimated) including payment in full to all small creditors.	48
Offers to liquidator's US lawyers	8
Sir Freddie Laker	8
Total .. ..	<u>64</u>

2. Later on 12 July, BA settled with the US lawyers at \$12.5m. The offer of \$8m to Sir Freddie Laker remains open until 20 August; it will be withdrawn if he or Lonrho meanwhile initiate any legal action against the liquidator or the defendants. BA currently expect the full cost of the settlement, if Laker accepts the \$8m, to be about \$66m.

3. BA expect contributions totalling \$18m from Pan Am and TWA and a further \$18m from the seven European airline defendants and BCal. The cost to BA would therefore be of the order of \$30m, of which \$10m would be in the form of increased interest payments to Exim. BA are obtaining insurance cover against excess costs of the settlement which they would have to bear, up to a limit of \$10m above an excess of \$1m.

4. The apportionment of costs has not been released, or reported in the press. Comment on any of the details of the settlement should be avoided.

Other litigation

(a) In relation to the existing case

5. Sir Freddie Laker has not indicated whether he will accept the offer. If he decides to fight, the courses open to him would be to challenge the liquidator's settlement in either the English or the Jersey courts, or to mount a fresh action in the USA. Although he would probably get a hearing his chances of overturning a settlement in which all the minor creditors are paid in full, and to which all the other creditors have agreed is slight. None of the fresh actions he might mount in the US courts is thought by BA's lawyers to stand much chance of success, but their potential for delaying the end of all anti-trust litigation is uncertain.

6. BA therefore hope that Sir Freddie Laker will come to see the value of the offer made to him and accept it, to remove this cause of continuing uncertainty. The decision to settle, with or without Laker, was taken by the directors of BA in the commercial interest of the company.

(b) Laker/Lonrho

7. The claims of the Laker/Lonrho companies and joint ventures established after the collapse of Laker Airways have never been spelt out in detail although Lonrho have said their claim is worth \$327m assuming the award of treble damages. Their claims are thought to be based on the failure of the new airline venture (People's Airline) to inherit the operating licences of Laker Airways - as a result the new airline never started business; and of Skytrain Holidays which ceased trading after one season after operating at

a loss - allegedly because of failure to gain admission to ABTA which, inter alia, provides an insurance fund and arrangements for holidaymakers against the possible collapse of tour operators. In the case of People's Airline, licensing decisions were a matter for the CAA. The applications were withdrawn after discussion with the CAA who had explained that they would find it difficult on technical grounds to sanction transfer of the former Laker Airways' licences. Exclusion from ABTA was taken by a vote of their general council (BA and BCal are members). Neither failure seems to provide grounds for a US anti-trust case, or for the linking of any complaint with events leading up to the failure of Laker Airways.

8. Mr Tiny Rowlands has alleged publicly (on the BBC radio 4 'Today' programme on 15 July) that Mr Sproat held a ~~secret~~ meeting with him, at the request of the Prime Minister, to ask if he would help to rehabilitate Sir Freddie. The Department of Transport has been unable to contact Mr Sproat, who is away. Official records show that the approach to Mr Sproat was made by Laker and Rowlands; while Mr Sproat gave a sympathetic hearing to them, he made it clear that decisions on licenses were entirely for the CAA.

(c) Class action

9. The class action has been brought by contingency fee lawyers on behalf of a large number of transatlantic air passengers. It is alleged that the fares they paid were higher than they would have been if Laker Airways had continued to fly. Negotiations on settlement have made little progress recently because TWA, who are joint defendants with Pan Am and BA, have been preoccupied with the recent hijacking and with attempts to take them over. Judge Greene is now on holiday for a month and his provisional approval

to the proposed settlement cannot now be sought until mid-August. Allowing the minimum period possible for advertising for claims, the class actions cannot be settled until November at the earliest. So far there has been no public comment on the possible timetable for the class action.

Timetable for privatisation

10. BA and the Government agree that it is essential that there should be no more false starts, and that a timetable should only be set for privatisation when we can be confident of achieving it. The response in public to questions about the privatisation timetable has therefore been that while the settlement of the liquidator's case removes a major obstacle, the class action also has to be settled before privatisation can go ahead. Negotiations on this are at a very early stage, and we cannot tell how long it will take to resolve, although it remains the Government's hope that BA can be privatised during the current financial year.

**TELLEX**  
THE BROADCAST REPORTING SERVICE  
**REPORT**

Sat 5  
to see - Tony  
Rowland on  
"Today" 15/7.  
RA.

LAKER VICTIMS TO BE PAID ?

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TODAY : RADIO 4 : 0630 : 15th July, 1985

0717

PETER HOBDAY:

Well, in the business world, the good news this morning is that those who lost out in the Laker collapse are to get their money back, the passengers and traders, up to £50,000. But the bad news, from the Government's point of view, is that the legal battle goes on with Sir Freddie yesterday refusing, as he termed it, to be put out to grass and accept a personal offer of £6 million. So, that could mean that the planned privatisation of British Airways could still be delayed further. And nor is Tiny Rowland, Freddie's partner after the collapse, too happy. He moved in, he told Graeme McLagan, because of a secret request by a Government Minister acting on Mrs. Thatcher's behalf.

TINY ROWLAND:

My...I got in touch with Freddie Laker, immediately I heard about his bankruptcy and he and I agreed to meet, and we saw each other at his solicitor's first of all, and then a day or two later we had meetings at a Government department for Government officials. And at one of these meetings, Freddie and I met a Minister, and this Minister asked me to, to lunch with him the following day, and he wanted to keep this lunch quiet, and, and suggested that he and I should go to a place where neither of us were known and he chose the Lounge Hotel. And at this...at lunch, he said to me...lunch went on for 2\ hours...he said to me "look, we want...that is, Government wants you to help Freddie", and he said to me that he'd asked me to lunch with him at the request of the Prime Minister, and he said that they...that was, his department and the Government would be happy and very, very grateful if we were to help to rehabilitate Freddie. And that's how it started.

GRAEME McLAGAN:

Why all the secrecy?

T.R:

I've no idea why there should have been any secrecy, because we, as far as we were concerned, there was no secret about it. Obviously, we were very much encouraged by...two of my colleagues at my office, that I had had this lunch, and that a Minister had asked me to, to, to help Freddie, and obviously we went ahead as quickly as we could.

G.M:

Well, you say you were asked to help, but why did you help, why did you get involved?

T.R:

Well, first, I thought that he'd been clearly wronged, and, and Freddie...I've known Freddie for some time, he's a, he's a, a great person, and it was the sort of business which we thought that Freddie, and with the support of Lonrho, could make a success of. So, it's...I was pleased to be encouraged by Government, especially with the Prime Minister's personal involvement, otherwise the Minister wouldn't have asked me to lunch with him, and, and, and we, once...we decided to go ahead.

G.M:

Would you have done this without that same encouragement?

T.R:

Well, that I can't...looking back, it's difficult for me to say now whether we would or would not have done it, but certainly it made a huge difference, and, and, and I think it may have been the deciding factor.

G.M:

Are you happy, Mr. Rowland, to name this Minister?

T.R:

Of course. It's Ian Sproat, the Minister for Aviation.

G.M:

Sir Freddie has been offered £6 million in compensation for the collapse of Laker Airways. Do you think that he should take

that money?

T.R:

Well, obviously, I've been in touch with Freddie in the last day or two, we're still close friends, but, apart from friends, we also have an equal share in two businesses which suffered substantial losses because of Government action.

G.M:

You're still threatening to sue various airlines. Now, are you serious about that, or is it a question of bluff?

T.R:

When we talk about suing airlines or...we're certainly not bluffing, it's not our character it's not in our character to bluff.

G.M:

These legal wrangles are, as you know, said to be holding up the privatisation of British Airways. Does that concern you?

T.R:

Well, you know, they never bothered about us, when it came to stopping us from taking over, for instance, the House of Fraser. I'm totally indifferent and unconcerned about privatisation. That's not my business, that's Government's business, and, as far as I'm concerned, we're interested in getting an adequate compensation offer. Freddie Laker will not be content to take 6 or £7million. It's...he's been in the aviation business for 47 years, he's not going to accept redundancy pay, and, like an old stallion, be put to paddock and out to grass, that's not his style.

SUE MacGREGOR:

And that was Mr. Tiny Rowland, who knows him well.

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