

BRITISH AIRWAYS

1. Sir John King came to see the Prime Minister at 10.30 a.m. on Tuesday, 23rd November.
2. Although Sir John said that he was very anxious to proceed with privatisation at the earliest possible date, and that the Government had no business to be owning an airline, he accepted that it would not be possible to proceed with privatisation as fast as he would wish.
3. The Prime Minister said that it would be very difficult to justify the Government writing off inherited debt, and that it would be unfair to British Airways' competitors to do this.
4. The Prime Minister said that the objective of privatisation remained, and that the only issue was one of timing and method.
5. Sir John said that he had in mind to reduce still further the number of employees of British Airways, below the figure of 35,000 which would be achieved by 31st March 1983.
6. Sir John raised with the Prime Minister the question of Tristar and the Ministry of Defence. The Prime Minister asked Mr Gow to have a word with the Secretary of State about this, *WHICH HE HAS DONE.*

24th November 1982



Mr Gow

Thank you

10 DOWNING STREET *very*

much.

Michael Scholar
✓

MCS 25/11

1. Herewith:-

(a) Copy letter dated
9th November 1982

(b) Note of the meeting
with Sir John
yesterday.

2. I have reported, verbally,
to the Secretary of State
for Trade.

IAN GOW

25.11.82

PRIVATE AND
CONFIDENTIAL

Bntou

Airways

24th November 1982

British Airways

Following our talk on the telephone this morning, I am enclosing a letter which I sent yesterday to John Nott, together with a copy of the enslosure.

Thank you for having agreed to see JP.

IAN GOW

The Rt Hon The Lord Cockfield

STRICTLY PRIVATE AND CONFIDENTIAL

23rd November 1982

I am enclosing a copy of a letter dated 19th November, which I received from John King.

He came to see the Prime Minister about this this morning.

May we please have a word about this, or would you prefer to talk to John King direct?

IAN GOW

The Rt Hon John Nott MP



10 DOWNING STREET

STRICTLY PRIVATE AND CONFIDENTIAL

22nd November 1982

British Airways Tri-Stars as Tankers
for the R.A.F.

Thank you very much for your letter of
19th November.

I have shown your letter to the Prime
Minister.

You may want to raise this with her
when you come to see her here at
10.30 a.m. tomorrow.

IAN GOW

Sir John King

British airways

Cleveland House, St. James's Square, London SW1Y 4LN
Telephone: 01-930 9766

Sir John King

Chairman

19th November 1982

Strictly Private and Confidential

Ian Gow Esq., MP.,
10, Downing Street,
London S.W.1.

Dear Ian

BRITISH AIRWAYS TRISTARS AS TANKERS FOR THE RAF

I wrote on 2nd November to Lord Cockfield about the national advantages that would flow from M.O.D. and R.A.F. buying TriStars, not secondhand DC10 aircraft from US., for conversion to aerial tankers. We were told that the Tanker role was primary. As events have developed, because the DC10 has built-in freighter capability as well, it has received more response. The TriStar can have this capability but it will take time to convert. This is the only difference.

We are offering up to six long range Rolls engined TriStars, on what we believe to be very competitive terms. These include comprehensive support spares, air crew and engineering training, flight simulator, aircraft maintenance, badweather operational capability and Royal Flight capability.

Virtually all of the TriStar conversion work (tanker-freighter) would be undertaken by Marshalls of Cambridge and there would be an ongoing demand for Rolls spares. The DC10 has American engines.

If the TriStar is chosen, the bulk of the transaction will be in sterling. Perhaps more importantly, the funds would merely be transferred between M.O.D. and D.O.T. In short, the TriStar has the advantage of keeping the work and the money within the U.K.

Your help please - very important

As ever John

John King

British Airways



10 DOWNING STREET

D=10
looky st. - will be
converted
BA has Mand. Transfer
to be converted i.v.t.
Landed call conv.
PAK to Jan Nov.
9 November 1982

SUBJECT
I hope to make a
real job.
Don't drop it -
when you are in with

From the Private Secretary

P.M. Cant make M.
Did not allow
I'm your telephone - 1100 - off the hook.

CITY - London

MANAGER - GOOD
FARMER SOUND
HIS 202 NOT TO UP
WALSH MONITOR
N.Y.C.

Dear John,

BRITISH AIRWAYS: PRIVATISATION

The Prime Minister held a discussion this afternoon about the matters raised in your Secretary of State's minute to the Prime Minister of 4 November, together with the attached paper. The Chancellor of the Exchequer, the Lord President of the Council, the Chief Secretary, Treasury, Sir Robert Armstrong and Mr. Sparrow were also present.

It was argued that there was a strong case for putting a receiver into British Airways immediately. He would deal with BA's indebtedness, would call the Treasury guarantees, and would sell the business as a going concern. But this course was ruled out by the fact that it could not be followed without legislation. An alternative would be to push ahead as quickly as possible, aiming for privatisation in late 1983 or early 1984, as recommended in paragraph 22 of the paper. This would require legislation, and a cash injection into British Airways in the region of £600 - £750 million. BA were now making an operating profit, and were forecasting a profit next year after payment of interest. The timetable for privatisation in 1983/84 was having, and would continue to have, a very desirable effect in galvanising the Corporation. Postponement of privatisation would all too easily cause BA to slip back into the morass.

Against this, it was argued that such a timetable would cause considerable political difficulties, both with the Opposition, who would criticise the arrangements as being a very poor deal for the taxpayer; and also with BA's private sector competitors, who might reasonably feel (although they were not in fact in direct competition with BA route by route) considerable resentment about BA's debts being forgiven. It was not clear where the balance of advantage lay as between reconstructing BA's balance sheet as soon as possible, so as to give them the possibility of showing reasonable financial results, and postponing any reconstruction, so as to set them the task of repaying some of their indebtedness through their profits. Certainly, to give them no cash injection and to

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require them to repay their debt wholly from profits would entail their remaining in the public sector for many years. Equally, to make an immediate reconstruction, with a very large cash injection, would give entirely the wrong signal. A middle course would be to envisage a cash injection at some stage, after BA had made some progress in themselves reducing their indebtedness; and to limit a cash injection to a sum well below that envisaged in paragraphs 12 to 15 of your Secretary of State's paper - say to £200 million or to such sum as would be compatible with a 3:1 debt/equity ratio. BA would thereafter aim to improve their financial position steadily, so as to enable them to go to the market with a good track record before too long.

The Prime Minister said that it was agreed that we should not contemplate introducing legislation providing authority to restructure BA's accounts this side of the General Election. Both political and economic considerations argued for the adoption of the middle course which had been identified in the discussion, and if legislation could be brought forward very soon after the General Election privatisation should not be put back as far as 1986/87. Much would depend on BA's progress, and on the quality of its management.

I am sending a copy of this letter to the Private Secretaries to those present at this afternoon's meeting. I would be grateful if you and they would ensure that it is seen only by those specifically authorised to do so by your Secretary of State.

Yours sincerely,

Michael Scholar
—

John Rhodes, Esq.,
Department of Trade.

B.A.

Prime Minister

7.1.

BRITISH AIRWAYS

1. I mentioned to you that John King came to see me on Monday.
2. In respect of the six months ended 30th September 1982, British Airways made a profit of £95 million, after paying interest of £60 million.
3. John King said that he would be willing to announce these figures at such time as was most convenient to the Government. Do you have any views about that please?
4. By the end of March 1983, the numbers employed by British Airways will have fallen from 59,000 to 35,000 which is the figure agreed by John King, his Board and the Unions.
5. However, John King now believes that it is desirable to reduce the number of employees still further, possibly to a figure as low as 30,000.
6. He is appalled by the overmanning and inefficiency which he has found at British Airways and says that his predecessors, who allowed the monster to grow, should be prosecuted for misuse of funds.

4.11.82


IAN GOW

Prime MinisterBRITISH AIRWAYS

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4.11.82.

IAN GOW

S.A.

Box

STRICTLY
PRIVATE AND
CONFIDENTIAL

19th October 1982

Thank you so much for your letter of today's date, with which you enclosed the text of the speech which you will be making this afternoon.

I have shown this to the Prime Minister.

She has asked me to say how grateful she is to you for having sent the full text to her.

Congratulations on the profit of £70 million, after interest, which you have achieved during the first five months of this financial year.

IAN GOW

Sir John King

cc. Michael Scholar

**British
airways**

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

Gov

Sir John King
Chairman

19th October 1982

By Hand:

Strictly Private and Confidential

Ian Gow Esq., MP.,
10, Downing Street,
London S.W.1.

Dear Ian,

I enclose a copy of my address to the 120 or so journalists who meet me at 2.30 p.m. today to publish the British Airways Accounts.

Do you think you would have a minute to show it to the Prime Minister.

It's a bit long winded but on this occasion it has to be this way.

Yours ever,

J.P. Sarah Chalk

John

Enclosures:

Dictated by Sir John King but
signed in his unavoidable absence:

Past, present and the future strategy

British Airways had a large deficit in the last financial year and is now in the middle of a substantial recovery. I want to tell you how the deficit came about, and how the recovery is advancing.

The deficit is the price of past wrong decisions going back for years.

As you will see from your Report and Accounts, the deficit was £544 million. One of the highest items is the cost of reducing staff numbers.

Making severance payments to over one third of the staff is expensive.

Overmanning was on a prodigious scale. It is now coming under control so that we can look with confidence to the future.

The airline has been conducted in past years as though money grew on trees. No longer. We have certainly improved services for the passenger and will do still more. For those who work for British Airways higher productivity is now the rule. We are carving out an airline which can stand up to comparison with the best in the world. In many ways we are indeed the world leaders.

Staff numbers have been cut from almost 59,000 in 1979 to 41,000 today and the total will be down to about 35,000 by March 1983.

In terms of improved productivity this long overdue reduction in numbers means an improvement of 40 per cent in the average revenue earned per employee.

Money is also saved in small but significant ways. Costly limousines have been replaced by family cars. We no longer cushion our administrators with lavish staff numbers.

No department of the airline, save those concerned with the maintenance of our aircraft and the care of the passengers, is safe from our sharp economy campaigns.

We have had to carry out major surgery.

The result is a healthier British Airways. Profits are being made again and I will come to that. The care of our passengers is steadily improving and with it our share of the market.

I am happy to tell you that people are increasingly choosing British Airways, particularly on our European routes.

But to return to the deficit.

The Board has again reviewed its past depreciation policy and it has decided that the economic value of certain aircraft types requires that they, together with certain specialist buildings, should be written down by £208 million, as an extraordinary item.

Some of our planes are not those the airline would have chosen but were the result of pressures for outside reasons applied by past Governments.

Happily the present administration exerts no such pressure. This Government sticks to its view that decisions affecting the conduct of a business should be taken by those charged with running it, and that is most certainly also our opinion.

The cost of severance pay and this additional depreciation to make the balance sheet values of our aircraft more realistic are special items. They are once for all, a clearing away of mistakes made in the past, enabling us to get on with our job, which is to run the most efficiently conducted airline in the world.

We ended the last financial year with an operating surplus.

The figures you will find in your Report and Accounts are a surplus of £13 million for the year to March 31, 1982 before interest and other charges. That is a great improvement on the previous year when there was an operating loss of £95 million, also before interest and other charges.

We have, of course, high borrowings and the effect of interest and other smaller charges and tax was to reduce the operating surplus to a loss of £118 million.

So the loss of £118 million and the extra depreciation plus the cost of severance pay for last year and to meet the commitment made for the current year produced the deficit you see in the Accounts for £544 million.

But we have taken energetic steps, with great support from our staff, to produce the renewed and reformed airline whose better results you are beginning to see.

There is a real effort to improve the food served. British Airways is aiming at a revolution in airline meals.

We are making use of menus from the most famous hotels in the world. We have chefs of international reputation making sure that standards, already high, are steadily improved upon. Our increasing share of the passenger traffic in Europe is in part due to our new approach to the meals we now serve.

Our staff are making unrelenting efforts on flight punctuality, where we are now well up with the best in the world. Obviously the weather and air traffic control problems never leave us, but British Airways improvements in punctuality are such that an air journey is now no longer automatically associated with the expectation of significant delays.

British Airways is leading the world in automatic landing equipment. A misty winter morning does not mean, if you are on a British Airways flight, that diversion is inevitable. Our autoland equipment has now been used in thousands of landings.

It is one reason why we look forward with confidence to the coming winter competition on our Shuttle services. Automatic landing equipment used in difficult weather conditions, gives a high degree of certainty that your early morning Shuttle will go to the intended destination, fog or not.

We aim to be responsive to the businessman as well as our other passengers. For that reason we have put on much earlier Shuttle services between the major cities. The eager salesman can now arrive in Glasgow, Edinburgh or London sufficiently early to attend the first meetings of the morning.

Our very substantial rises in productivity, brought about by the staff cuts I have described, help us to keep the level of fares much more under control. We continue our policy of selective cuts in fares, of which a good example is last month's introduction of the £745 Advance Purchase APEX ticket to Japan which cut more than £900 off the then lowest fare. British Airways had been trying for years to make this very substantial cut on the flights to Japan.

We all know that there is ferocious competition from every quarter of the globe.

In the first five months of this financial year we achieved a profit of over £70 million, after interest.

A modest profit when set against our huge turnover but still a profit, and of course nothing like the level required.

Of course, those who know the airline industry will know how hard it will be not to fall back in the less busy months of the winter.

We were delighted to win the Airline of the Year Award in an independent survey of 25,000 businessmen's flights. An important part of that is the great improvement in punctuality of our services. But in all this I want to see great improvements still, particularly in what happens at the airport before and after the flight.

You might take note of the fact that of the £544 million £407 million arises from extraordinary and non-recurring items and another £111 million is interest on bank debt.

Talks will I hope commence with the Government concerning restructuring the Balance Sheet which must be done regardless of privatisation.

Low costs mean low fares - which is good for our passengers.

Low costs mean we can afford to invest in better services - which is good for our passengers.

Low costs mean we can afford to invest in the new technology and the new equipment to put us ahead of our competitors - which is good for our passengers.

And finally, low costs mean we can afford to invest in our staff, and to properly motivate them to give the best service - which is good for our passengers.

These are the firm foundations on which the strength and prosperity of British Airways will be based.

It is my job to run a sound and profitable airline. As it says in the words of the hymn: "One step enough for me".

B.A.

Prime Minister

British Airways

1. I mentioned to you that John King came to see me on 13th October.
2. He asked me to give you the attached copy of his letter dated 1st October addressed to Arthur Cockfield, which makes interesting reading.

15.10.82

IAN GOW

British
airways

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

British
Airways

(F)

By Hand:

Sir John King

Chairman

13th October 1982

Strictly Private Personal
and Confidential

M.D.M. Franklin Esq., CB., CMG.,
Permanent Secretary,
Department of Trade,
1, Victoria Street,
London SW1H 0ET.

Dear Michael

Just so that you will know my thinking about the British Airways Board, I will be seeing Basil Collins next week and hope that he will say, and I believe he will, that he would be pleased to receive an approach from the Secretary of State, if the Secretary of State is in mind to do so. So we will have before you, him, Sir David McNee, where I know you have a slight question mark at this time. To follow on with the development, I believe we have come to the time when we appoint a Chief Executive or Chief Operating Officer in line with the Hay Report.

You will know that I have tried very hard with the present incumbent but would be deluding myself in thinking that we could go forward to any form of privatisation as we are. There is some real urgency about this situation.

I do not believe that the candidates I had in mind and that I had referred to you previously are right. I may change my mind but I don't think so.

There is a man, John Mann who is currently the head of the United Biscuits operation in America. I expect to see him in about ten days. If he would come back to do the job and the other appointments and disappointments are made! then we would be set fair.

This is not intended to be an official letter to you but simply to bring you up to date with my thinking and so that you can inform the Secretary of State in general terms. If you think I am on the wrong track or would like to talk to me about it, then I would be very pleased to come round and see you.

John King

John King

B.A.

Prime Minister

British Airways

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15.10.82



IAN GOW

**British
airways**

PO Box 10
Heathrow Airport (London)
Hounslow TW6 2JA
Telephone: 01-759 5511
Telegrams: Britishair

Chairman: Sir John King

1 October 1982

The Rt. Hon. Lord Cockfield,
Secretary of State for Trade,
1 Victoria Street,
London, SW1H OET

Dear Arthur

British Airways Report and Accounts
for 1981/82

1. Following a special meeting of the British Airways Board to consider its annual report and the accounts for the last financial year, I write to seek a meeting of minds which appears necessary before we can settle the terms in which the report and accounts go forward. At a technical level this is necessary to satisfy the auditors that they need not qualify the accounts, but the Board feel on more general grounds also that they should seek an understanding on the matters set out later in the concluding paragraphs of this letter.

Background

2. As you know, international airlines generally have run into financial trouble in the last few years. This applies both to the privately owned airlines in the United States, where Braniff has gone out of existence and PanAm has barely managed to survive through massive sales of assets, and state-owned airlines such as Air France and Air India, whose losses have been financed or underwritten by their governments. British Airways' previous modest profitability was wiped out by 1979/80 and there was an operating loss, even before interest charges, in 1980/81.

3. This general state of affairs resulted largely from a combination of three things:

- (i) the escalation in the price of oil, which in our case accounts for something like a third of total costs;
- (ii) the world recession;
- (iii) de-regulation and increased competition;

/...

I am not concerned here to criticise de-regulation but to make the point that, in conjunction with the other developments listed, it came at the worst possible time for the airlines.

4. British Airways was better placed than the private airlines because of government guarantees of borrowings, but had a number of special problems:

(a) a very low proportion of equity (in the form of public dividend capital) in the capital structure, producing a heavy burden of debt interest to be met out of depressed earnings;

(b) a substantial number of relatively uncompetitive aircraft which had been bought as a result of government policy ;

(c) a history of industrial indiscipline and disputes at Heathrow, not confined to the airline's own employees;

(d) overmanning

Action Taken

5. In this situation profitability has been given overriding priority in our present objectives, at the expense of the previous growth strategy. An itemised summary of the measures taken and the results achieved is given in the enclosed set of notes under the broad heading of Self Help. These include the following:

Organisation and appointments: the airline is being restructured with the emphasis on profitability and profit centres. New appointments have been made to key positions involved in the change of strategy.

Route closures: routes which cannot be made to pay are being eliminated - 62 in the past three years, including 30 international routes in the past 2 years. Purely cargo operations have been discontinued entirely.

Capital expenditure: planned capital expenditure has been scaled down; purchases of new aircraft have been cancelled or postponed, except to the extent necessary for essential fleet modernisation.

Disposals: in the past two years we have realised £74m from sales of aircraft and £12m from property sales. We are negotiating to sell the profitable subsidiary IAL and are looking for net proceeds of some £42m.

3

Operating costs: we are getting more utilisation out of a reduced number of aircraft, and giving better service at the same time. There is a drive on all current costs, including fuel costs.

Pay

6. I will comment more fully on two key issues, pay and manpower, on which I enclose separate notes, and on which there may have been some misunderstanding. We are being more rigorous than government requirements on pay increases. Last year there was a low and delayed increase. This year, though the traditional settlement date was January, the actual settlement does not take effect until October 1982; it then holds good until the end of 1983. Thus there is one pay increase for the two year period. The once-for-all increase is 11%, but spread over the two years it is equivalent to, say, 6.6% from January 1982 (roughly the public service norm for 1982) and nothing further in 1983. This is dictated by our financial situation, but at the same time it required a lot of resolution on our part to get this result and see it through, and I am disappointed if this has not been recognised.

Manpower

7. Manpower has been reduced, mainly by a special voluntary severance scheme and early retirements, from a peak figure in the region of 58,000, to about 41,000, and a further reduction to 35,000 is planned. This involves severance costs approaching £200m in all, and provision for this, including the severance payments still to be made, appears in the accounts for 1981/2 as an extraordinary charge. (Other extraordinary charges which do not, however, affect cash flow in the year, amount to more than that again. This is unfortunate, but the Board have accepted the need for these provisions).

8. It has been suggested, I understand, that compulsory redundancy should be adopted for the further staff reductions, so as to avoid the remaining cost of the voluntary severance scheme. The cost per head of the further reductions will be greater than it has been so far, perhaps £15,000 a head, because higher paid staff, especially pilots, will be affected. But the savings per head will be higher also, and the pay-back period is estimated at under 1½ years.

9. Though the cost per head under the national redundancy payments scheme, if it could be applied, would be much less, it is our considered view that this notional saving would be far outweighed, by the loss of staff cooperation and the cost of almost certain industrial action. Even if the unions fell in with compulsory redundancy, they would be entitled to insist on the "first in, last out" principle,

which is the reverse of the selective redundancy which we apply. But it is far more likely that selective industrial action by the Unions would bring the airline to a standstill. As an indication of the possible cost, last year's six weeks industrial action by the CAA's Air Traffic Controllers, which did not bring us to a standstill, cost the airline £60m in loss of profits. We have taken some calculated risks in our negotiations on pay and working practices, but the Board would be opposed to the certain setbacks to all our efforts which would result from a forced change of tactics in handling the rundown at this stage.

Financial Results

10. The reality of the savings on manpower and other costs is demonstrated by the fact that in 1981/2 we were back into operating surplus (though in deficit after interest and extraordinary charges) and in the first six months of the current financial year, we have achieved an operating surplus of £116m, and an overall surplus, after interest, of £74m. Though this is the more buoyant half of the year, and there are now some indications of a weakening of the market, especially in the UK, we have a reasonable prospect of a return to overall profitability in 1982/3 as a whole unless there is some fresh setback, such as a repetition of the Air Traffic Controllers' dispute. This favourable prospect for 1982/3 is the opposite side of the coin to the bad figures for 1981/2 which result mainly from the extraordinary items in the accounts.

Report of the Auditors

11. However, these items, on top of earlier losses, have a continuing effect on the balance sheet, which shows an excess of liabilities over assets. This must obviously direct attention to the potential problem of the airline's £1,000m of capital debt. A private enterprise could not continue on this basis, and the auditors propose to say that the accounts have been prepared on a going concern basis on the strength of your assurance to the British Airways Board that HM Government will ensure the availability of adequate financial resources to meet the Board's obligations as they fall due. It is, in the first instance, an assurance to this effect that I am obliged to seek.

Financial Reconstruction

12. While it would no doubt be possible for the airline to continue as a public corporation on the basis of renewed assurances of this kind from year to year, with actual refinance of our borrowings as necessary, this would certainly provide no basis for the introduction of private

capital into the enterprise in line with the government's objectives, and it would be an unsatisfactory prospect even while the airline remains in public ownership. If we have to project our future profitability in the absence of a capital reconstruction, naturally we must assume that we will at least maintain the result which is in sight for the current year, but experience shows how large is the margin of error in such projections and how vulnerable the airline is to industrial and economic developments. A capital reconstruction which produced a more realistic debt: equity ratio, and reduced the weight of debt interest, would give us some room for manoeuvre in managing our affairs. As it is, the Board has been obliged to concentrate on financial survival and the restoration of profitability and, though the benefits are now coming through in the profit and loss account, the overhang of indebtedness is a continuing source of anxiety and a considerable inhibition on entrepreneurial decisions. It is therefore my intention to say, as part of the report and accounts to be put to you that the Board has asked the Government to consider a reconstruction of the airline's capital and debt structure and has made proposals for this, to which it awaits the Government's response.

13. I recognize the possible sensitivity of this issue, at home and internationally, but we cannot for that reason put off necessary decisions. While I appreciate that the terms of your response must take account of the need for Parliamentary cover, to the extent that it is not provided by existing powers, I do seek, on behalf of the Board, an assurance on the lines indicated in my paragraph 11 above, and a statement of intent on the question of capital reconstruction.

I am not asking you to commit yourself here and now to details of the reconstruction, and we will put forward separately further material in support of our case, but I do seek acceptance of the principle.

Yours ever

John King



Enclosures:

S E L F - H E L P

A Summary of British Airways' Action,
taken, being taken and firmly planned

	During 1980 to end 1982/3 (<u>approx 3 yrs</u>)	During 1981 to end 1982/3 (<u>approx 2 yrs</u>)
ROUTES DELETED		
- International	37	30
- Domestic	<u>25</u>	<u>3</u>
- Total	<u>62</u>	<u>33</u>
STATIONS CLOSED	25	17
BASES CLOSED	3	3
OPERATIONS CEASED	All-freighter	All-freighter
AIRCRAFT WITHDRAWN		
- Total	95	65
- of these, sold:	60	53
- realising:	£97m	£74m
STAFF REDUCTIONS*	22,200 ie -39%	19,000 ie -35%
PROPERTIES RELEASED		
- Major Units:	15	15
- of these, sold:	5	5
- realising:	£12m	£12m
SUBSIDIARY SOLD		
- IAL	£42m (est)	£42m (est)

*Manpower reduction from peak in Aug 1979
to 35,000 staff = 23,200, -40%

QUALITY OF PRODUCT

PRODUCT

- i New European Product
British Airways innovation : introduced 1980,
complete 1981

Adopted in full by 7 other European carriers,
so far. Likely to be adopted soon by 3 more.
(Six carriers still maintain First Class/Economy
products).

Proportion of BA UK/Europe traffic now travelling
Club approx. 33%.

- ii Sleeperseats, Super Club, segregated check-in,
introduced 1981 for intercontinental services.
- iii Euroshuttle to Paris, Amsterdam, Brussels under
consideration (in cooperation with Air France, KLM,
Sabena).

PUNCTUALITY OF SERVICE

Departures within 15 minutes of schedule:

- i Intercontinental services; now 74%
- improved since 1979/80 by 110%
- ii European services, now 80%
- improved since 1979/80 by 25%
- iii Shuttle, now consistently over 90%

REGULARITY OF SERVICE

99½% of British Airways planned operation is now actually performed.

BADWEATHER OPERATION

British Airways capability better than any other European operator
(four fleets equipped to "Category 3" capability).

PASSENGER DISSATISFACTION

- i Lost/damaged baggage claims settled now 2 per 1000
passengers; down 22% since 1979/80, 12% since 1981/82.
- ii Total passenger complaints now 2.1 per 1000 passengers;
down 19% since 1979/80, 11% since 1981/82.

ORGANISATION

- i Airline restructured May 1982, establishing three profit-accountable service divisions.

Economies of scale available from integrated production and service departments retained.

- ii Four executive directors relinquish their positions in 1982. Chief Financial Officer appointed in 1982. New Chairmen appointed to Subsidiary Companies, 1982.

- iii Airline advertising agency changed 1982.

RATES OF CHANGE

	Change between 1980/1 & 1983/4 (3 years)	Change between 1981/2 & 1983/4 (2 years)
1 AIRLINE PRODUCTION		
- Available tonne kilometres	-14%	-5%
2 UTILISATION OF PRODUCTION		
a Seat Factor	+5.3 points	+1.2 points
b Overall Load Factor	+5.2 points	+2.6 points
3 UTILISATION OF AIRLINE FLEET		
Annual average hours per aircraft		
1979/80 2522))
1980/81 2359))
1981/82 2287)	+13.1% (+4.2%pa)	+16.6% (+8%pa)
1982/83 2535))
1983/84 2667))
4 STAFF PRODUCTIVITY		
Units of production per staff	+36% (+10.8%pa)	+33% (+15.4%pa)
5 STAFF PAYROLL COST		
a Basic pay settlements	+6.2% pa	+5.4% pa
b Total cost of pay, pensions & insurance	-13%	-11%
- reduced by	-33% real terms	-25% real terms
6 COST PER UNIT OF PRODUCTION		
a Staff pay etc	-22% (-7.8%pa)	-20% (-9%pa)
b All costs	-7% (-2.3%pa)	-6% (-3%pa)

OVERALL PERFORMANCE

British Airways has achieved the reported improvements in efficiency despite economic recession, high inflation, stagnant demand, reducing output and increasing competition. Comparing results for April-August 1981 with those obtained in 1982,

	<u>April-August (incl)</u>	
	1981	1982
Operating Result	-£16m	+£116m
*Result of British Airways	-£33m	+ £74m

* Includes results of subsidiaries, etc, and after tax and interest

BRITISH AIRWAYS

STAFF RUNDOWN

1. In reducing our staff numbers by over 40% our aims were:-

- i) to maintain the existing level of operations;
- ii) to continue to achieve increased levels of operating efficiency;
- iii) to bring about change with minimum conflict;
- iv) to minimise cost whilst maintaining the essential skill and knowledge mix.

2. The achievement of those aims involved:-

- i) retaining management discretion about who should go and who should be retained.

This required our negating TU opposition to:-

- a) the massive change required by British Airways;
- b) the consequent staff rundown at times of high unemployment.

3. The 'voluntary' system we adopted achieved these aims and we expect to continue this process in dealing with the current rundown though we have not discounted the possibility of compulsion should 'voluntaryism' not continue to meet our targets.

4. But we seek to avoid compulsion. The reasons are:-

- i) Without question we would face strike action. British Airways is highly unionised. There is no product shelf life. Thus our financial position would be greatly worsened - and immediately.
- ii) We face a long-standing National Joint Council agreement based on the last in, first out concept. The strict application of this concept would play havoc with the structure of our workforce in terms of age, skills, departmental and geographical location.

A unilateral decision not to apply the agreement would simply increase the risk of strike action.

The alternative would be to seek to negotiate a change in this agreement. This course of action would involve a negotiation about redundancy terms.

/...

Under these circumstances, the negotiated terms would certainly be no lower than those used under our voluntary scheme. Thus:-

- a) we would not have produced a cost benefit;
 - b) we would have lost the high degree of managerial control we currently have over who goes and when.
- iii) The single most obvious potential benefit flowing from compulsory redundancy would come about if we were to apply terms of redundancy pay strictly in accordance with the Redundancy Payments Act. But taken in combination with ii) above this action would undoubtedly bring about a stoppage of work (probably declared official by the major Trade Unions) lasting, I believe, for at least four weeks. Ironically, any negotiation designed to shorten such a strike would involve the negotiation of redundancy terms.

PAY

1. Our aims were to:-
 - i) Bring about massive change with minimum disruption. To achieve this aim we needed to:
 - (a) retain essential groups whilst encouraging others to go from the airline on a selective basis;
 - (b) work within tight cost parameters.
 - ii) Have regard to pay levels elsewhere in aviation. In this context, had British Airways done nothing, our pay levels at end December 1982 would have been 16% below B/Cal's industrial grades. In addition other operators at London Airport gave increases of the order of 10% in 1982.
2. It was against this background that we entered our pay settlement covering the period 1 January 1982 to 31 December 1983.
3. The settlement gave an 11% increase with effect from 17 October 1982 and can be expressed in the following equivalent cost terms over two-year period.
 - i) A single payment of 6.6% from 1 January 1982 - 31 December 1983.
 - ii) 2.4% from 1 January 1982 - 31 December 1982 plus 5.4% from 1 January 1983 - 31 December 1983.
 - iii) 7% from 1 October 1982 - 31 December 1982 plus 3.9% from 1 January 1983 - 31 December 1983.
4. This is, therefore, a very good and cost/effective pay deal, achieved without industrial trouble of any substance. If we now arbitrarily withdraw from the agreement we would face an immediate and widespread strike. There would be no choice but to sit it out, whilst losing some £2½m per day net.