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*CCRB*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London  
SW1P 3EB

*NBR*

6 January 1986

*Dear Secretary of State,*

**BAA PAY**

Thank you for your letter of 30 December addressed to Nigel Lawson.

My letter of 26 November, with which you expressed general agreement, pointed out that we must try and obtain lower settlements than prevailed last year in the public trading sector. I am therefore rather concerned that the BAA are envisaging going as high as a package worth 6 per cent on average earnings, which would be  $\frac{1}{2}$  per cent higher than last year. There does not seem to be any objective justification for an award at this level. I am not aware that the BAA are experiencing any recruitment or retention difficulties, and with inflation expected to decline to  $3\frac{1}{2}$  per cent by the end of 1986, the employees could accept a much lower settlement than last year and still maintain or even improve their living standards. This is one of the earliest public trading sector groups to settle and it would be very helpful if they could set the rest an example by concluding a lower settlement than last year.

If we are to have any chance of securing a lower settlement an opening offer worth 5 per cent on average earnings looks too high. I could, at a pinch, accept 5 per cent as a final settlement but achieving this figure will surely require the BAA to pitch their opening offer somewhat lower. I would be grateful if you could make these points to the Chairman before the negotiating meeting.

I am copying this letter to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

*Yours Sincerely,*  
*Paul [Signature]*

JOHN MACGREGOR  
Approved by the Chief Secretary  
and signed in his absence

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The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

NBP7.

30 December 1985

Dear Chancellor,

## BAA PAY

I have now received details of BAA's pay intentions for this year. Their pay anniversary date is 1 January.

As you know, BAA's settlements in recent years have been quite reasonable - last year the earnings effect of their settlement was 5.5% compared with an inflation rate of 6.9%. This year they expect negotiations to be more difficult than usual. The prospects of privatisations together with BAA's increased profitability have raised expectations. In addition, pay negotiations affecting related companies - notably British Caledonian and British Airways - are having their influence. The pay of BAA's Fire Service is also an issue, as is the level of London weighting compared with other employers.

Against this background, pay claims ranging from 16% to 48% have been received. BAA will be responding to the unions on 7 January. Any offer they make will be restricted to pay increases that will result in average earnings rising by up to 5% with the possible need to increase the offer at a subsequent stage, probably by no more than 1%. The nature of the package will vary from group to group - for example, some employees may be offered a flat rate increase and others a percentage - but there will be various productivity elements contained in the offer, which is well within the pay bill provisions.

I have, of course, stressed to BAA the need to keep their settlement as low as possible but, in my view, their proposal is reasonable in the light of the various pressures they are facing this year. I shall, of course, keep you informed of major developments in the negotiations.

I am copying this to the Prime Minister, fellow members of E(PSP) and to Sir Robert Armstrong.

Yours Sincerely

J. Coulter

P.P. NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence).

