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BA AND BCAL - ECONOMY MEASURES

The rapid deterioration in the trading conditions for BA and BCAL reminds us that the airline business is not only cyclical but also prone to unpredictable risks. Moreover, commercial aviation is increasingly becoming a business, where customers have little regard for the name of the airline and the frills; the dominant factor is getting rapidly from A to B at the lowest cost.

Managers like Colin Marshall of BA know that you don't survive in this sort of industry unless you act rapidly and decisively to correct for a downturn of business; it is no good riding high in a boom if the sequel is bust. That is what happened to BA after the last oil shock.

The Jeremiahs will be wringing their hands over the economy measures proposed by BA and BCAL. In my view, the bad news is substantially outweighed by the evidence that both airlines are on their toes and responsive to market conditions. No-one is surprised that the oil production companies are reacting in much the same way to lower oil prices.

The tide of airline deregulation is irreversible. Europe will follow the US - more rapidly now that the European Court has declared that the air transport industry is subject to the

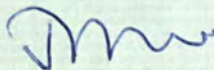
Community's normal laws of competition. The opportunities stemming from deregulation and lower air fares are huge. The Boeing Corporation is forecasting nearly 7% pa growth in the demand for commercial air travel over the remainder of the 1980s and 5-6% pa growth over the 1990s.

The recent upheavals in the US airline industry demonstrate that the future is for the lean, hungry and cost-conscious (eg Texas Air - now incorporating Eastern - American and Delta) and not familiar names like Pan Am and TWA who grew fat as protected national flag carriers.

BA and BCal already have the considerable advantage of their Heathrow and Gatwick airport hubs. British airlines are no mean operators in a tough, competitive commodity business, as our successful chartered airlines have shown. It now looks more likely that BA and BCal have learnt the same commercial lessons. If so, they will be ready to carve up protected competitors like Air France, Lufthansa and Alitalia in a deregulated Europe.

### Conclusion

BA and BCal are right to respond rapidly and decisively to a business downturn. Their action bodes well for the future. For the Government to intervene and undermine the management's resolve would be most damaging.



JOHN WYBREW