

Steen

Prime Minister

BRITISH MIDLAND AIRWAYS LIMITED

1. Herewith original letter of yesterday's date from the Chairman of British Midland Airways Limited, which was sent to me by Anthony Steen, who is strongly in favour of free competition being allowed to operate on the London/Scottish routes.
2. I spoke to John Biffen about this this morning, and handed to him a copy of the attached letter.
3. As you know, the Civil Aviation Authority rejected the application made by British Midland. British Midland has appealed to the Secretary of State. The Secretary of State's officials, predictably in agreement with the officials of the C.A.A., are urging the Secretary of State to uphold the decision of the Authority. John himself, strongly pliable in the hands of officials, is most reluctant to overrule them. Thus, it appears as if John's decision, due to be made before he departs for Brazil on Maundy Thursday, will be in favour of monopoly and against competition. This will cause dismay to many in our own Party, including the writer of this letter.
4. I said to John that if he was minded to uphold the decision of the Authority then, before announcing that decision, me must first consult you.

2nd April 1982


IAN GOW

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Your Ref:

Our Ref: MDB/RAM

April 1, 1982

Rt. Hon Margaret Thatcher, M.P.,
Prime Minister,
10, Downing Street,
London, S.W. 1.

Your Prime Minister,

Nine months before you were elected to office, my two partners and I completed the acquisition of British Midland Airways from a quoted investment banking and insurance group. Before buying the company we had been working directors of the airline for ten years during which time we built-up the company to be the largest private sector operator of domestic air services. We also developed from scratch a leasing service which provides aircraft, crews and support to overseas airlines in developing countries and were awarded the Queen's Award for Export Achievement in 1979 in respect of these particular activities.

During 1981 the airline carried more than 1 $\frac{1}{4}$ million passengers with a turnover exceeding £50 million and employed 1,100 staff throughout the United Kingdom and overseas.

Our management buy-out took place before the May 1979 election and during the final throes of the last government. At the time, we believed that a Conservative government, if elected, would support those individuals who were prepared to stake all they possessed in order to raise finance to become owners of the companies for which they had worked and built up over a number of years. In our particular case we believed that through buying the airline, together





with support from the government for the private sector, we would help roll back the public sector and bring a genuine element of competition between the state carrier and private airlines helping both to be more cost effective and efficient. At the same time the travelling public could enjoy lower fares and improved service.

We were unable to raise in the UK the £2½ million needed to achieve our buy-out but with persistence we finally succeeded in borrowing the money from a private US investor who had considerably more confidence than the British banks and lending institutions in the future of private enterprise in the British economy. Our US partner now owns 25% of the company whilst my two colleagues and I together hold 75% controlling interest. The finance is in the form of an equity loan repayable in 1985.

Having acquired the company, our first major expansion in October 1978 was to take over air transport operations at Liverpool Airport formerly operated unsuccessfully by British Airways and which were running losses at the rate of £1½ million per annum. You will be only too familiar with the difficulties of running a viable enterprise in Merseyside with the decline that is taking place there in many industries. However, we felt that if we made a genuine contribution to supporting the area and ran reliable services we would be able to achieve a much improved financial performance compared with British Airways, contribute greatly to the transport infrastructure of the area and use our experience as a further stepping stone to the more viable volume trunk routes within the United Kingdom.

In the event, the continuing decline of Merseyside has been steeper than we originally anticipated but we have sustained our services through a particularly difficult period on Merseyside and reduced considerably the scale of losses incurred by British Airways. However, we have during the past three years invested more than £3 million in this particular expansion from our own resources and have not sought the assistance or aid of any government department or agency to maintain these vital air routes. I would doubt if any other private company in Britain has contributed more, pro rata, of its resources than BMA has in revitalising Merseyside. The cost to the tax payer has been nil.



We have seen no return on this investment so far and although we hope to have stopped the losses being incurred during 1982 it will be 1983 or later before we see any profitable return on our investment.

In the meantime, we applied to the Civil Aviation Authority in February 1981 for licences to operate parallel and price competitive services on the two principal volume trunk routes in the UK linking Glasgow and Edinburgh with London Heathrow. We invested £100,000 in a media campaign to attract support for our proposals resulting in more than 1,500 companies and organisations both in England and Scotland giving their full support to our application. We demonstrated that we could offer a viable and profitable alternative to the British Airways Shuttle which would give passengers a genuine choice of service - we propose to have a conventional reservations service together with meals and refreshments served on board - and at the same time offer a substantial reduction in price.

Our application was refused by the Civil Aviation Authority principally on the grounds that our proposed services would weaken the financial position of the British Airways Shuttle and adjacent services from Scotland to Gatwick operated by British Caledonian - even though the latter services are even more expensive than the British Airways Shuttle. Despite the fact that our services would have been profitable and that both the other airlines have failed to make profits on the operation of these routes over many years the case for competition, lower prices and consumer demand were all dismissed by the Authority in their decision.

Equally damaging to us aside from losing the case was the time taken between our initial application and the final decision by the CAA which took no less than nine months. In the first instance the Authority did not schedule the hearing for more than five months after our application, then failed to allow sufficient time for the hearing in their timetable resulting in the hearing being adjourned until September 1981 with their refusal following in late October. An appeal lodged by us with the Secretary of State for Trade for the CAA decision to be reversed was despatched immediately and this appeal has now been dormant in that Department for nearly six months. Both these delays are inexcusable and have been highly damaging to our company.



Meanwhile our business has suffered through this protracted and damaging delay to the extent that we have been unable to dispose of, or find alternative work for, the aircraft earmarked for these services not knowing if our application would succeed and not wishing to be without capacity if the application was granted. We estimate our losses on this account alone as more than £1 million.

Consequently last year our company made a loss for the first time in seven years not only for the reasons already stated but because the airline suffered badly through the strike of air traffic control officers during the government's successful handling of the Civil Service dispute during May and June last year. Whilst the outcome of that dispute was very satisfactory for the Government and, I believe, the country also - it was disastrous for my company. Airports were closed on an unpredictable basis and the traffic on our domestic routes fell away as passengers switched from air to surface travel. We know that our revenue losses during this period alone were nearly £2 million.

The hard work of all our staff and their willingness to accept a wage freeze for ten months coupled with a 15% redundancy has ensured that our airline has survived this winter and allowed us to re-organise our business to the extent I am confident the airline will again be profitable in 1982 although the financial scars of last year will take longer to heal.

Since 1978 we have taken over fifteen low volume routes from British Airways which they have been unable to make pay. The majority of these routes serve provincial cities where the recession has hit hardest. In most cases we have either made the routes pay or considerably reduced the previous losses.

It is grossly unreasonable that we repeatedly find ourselves having to eke a living out of routes British Airways abandon as hopeless and are consistently denied the opportunity of serving the trunk domestic routes in the UK whose volume would support parallel competition.

Unless we are given a fairer share of the better routes it is inevitable that services to Merseyside will have to be axed and the size of our operation further curtailed. May I suggest that millions of pounds of aid to areas like Merseyside are a poor substitute for a business enterprise that is prepared to put its own money into these areas.



May I ask you to act urgently in reviewing our appeal with the Secretary of State for Trade and give consideration to British Midland Airways being allowed to operate these services to Scotland in the form which we originally applied for licences to the Civil Aviation Authority in February 1981.

There is a widespread feeling among businessmen in the private sector that despite the very best intentions of your Government to support and assist the private sector, it is the public sector that more easily rides out the storm and we find ourselves at a continuing considerable disadvantage to them.

I also appreciate that in our own industry you are taking steps to put British Airways house in order and that this will take time. Nevertheless there are companies like British Midland who have had to work hard over the years to successfully avoid falling into the same traps that have befallen British Airways and we should be equally supported by you in being able to fly on equal terms with the public sector and not have to fight with one hand tied behind our backs.

I believe my colleagues and I are as good an example as you are likely to find of a group of people who have pursued in a practical way the policies of self sufficiency and enterprise which you rightly exhort the nation at large to follow. Sadly, having made the effort ourselves, the Government through its policies with the nationalised industries is unable to deliver to the private sector in practice what it promises in theory. Is it too late to hope that in this instance the balance can be redressed?

Yours sincerely
Michael Bishop.

Michael Bishop,
Chairman and Managing Director.