

file

JK



10 DOWNING STREET

THE PRIME MINISTER

28 October 1982

PERSONAL

Dear Frank,

I found the paper attached to your letter very illuminating, and I am grateful to you for the work which you put into it.

It is, I am afraid, inevitable when things have gone as wrong as they have at British Airways that there are accusations and counter-accusations about where the blame lies. Our efforts must go into putting matters right at BA: with a loss last year of £545 million and liabilities currently exceeding assets that will be a huge task.

Yours ever
Margaret

Lord McFadzean of Kelvinside

da

Aerospace

file

PERSONAL

da



10 DOWNING STREET

From the Private Secretary

28 October 1982

Dear John,

I enclose a copy of an exchange of personal correspondence between the Prime Minister and Lord McFadzean of Kelvinside about British Airways.

I would be grateful if you would ensure that this is not circulated outside your Private Office.

Yours ever,

Michael

John Rhodes, Esq.,
Department of Trade.

PERSONAL

da



10 DOWNING STREET

Prime Minister

CP/M send

Should a copy of this

go to Lord Cockfield — marked

personal?

MLS 27/10

Yes — check on
out.

LORD MCFADZEAN OF KELVINSIDE

65 BUCKINGHAM GATE

LONDON SW1E 6AT

PERSONAL

01-222 9020

*Yes - we shall
need to handle it carefully
- but he has put
considerable effort into
his letter for which
I am grateful*

22nd October 1982.

2

Dear Margaret,

Prime Minister

I do not want to enter into public controversy over British Airways but if the indiscriminate, counter productive, mud slinging against the career staff continues, someone will have to redress the balance. The attached note brings out just a few of the points.

Shall I draft a reply saying you take his point, but the fact remains that BA lost £45m last year

and their liabilities exceed their assets?

Too many people are behaving as if they had been pre-conditioned by some naive economic Pavlov. Government owned - bloated, incompetent, mismanaged, stupid, shortsighted; private sector - lean, well managed, entrepreneurial, thoughtful, far seeing. The division hardly accords with the facts.

MCS 26/10

*Yours ever,
A. Frank.*

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON SW1.

Encl:

BRITISH AIRWAYS

Fleet

British Airways entered the second half of the seventies with the most complex fleet of any major airline. It had 12 basic types of aircraft against 3 for Pan American and 5 for T.W.A.; it had 8 engine types against 3 for Pan American and 5 for T.W.A. Result for British Airways was more inflexibility in the use of crews, higher training expense, more working capital tied up in spares, and so forth. Because of an unstable inter face between Government and British Airways over the years it was not possible to pinpoint responsibility for the state of affairs. Aware of this, the Prime Minister - Mr. Callaghan - agreed in 1978 that the Board should be permitted to order the aircraft which, in its judgment, were the best suited to its route structure. It was decided to rationalise the fleet on four main types - the 747, the Tri-star, the 757 and the 737. This of course takes time - the first 757 is not due for delivery until 1982/83.

Manning Levels

Since airlines conduct their operations in widely different fashions calculations of relative efficiency are difficult. To achieve a comparable basis British Airways and a selection of American and Continental airlines submitted data to a leading management consultant. The final report showed that per 10m. available ton miles British Airways employed 142 people, the European airlines 115 and the North American carriers 71. However, when wage and salary differentials were taken into account, British Airways personnel costs per available ton mile were the lowest at 12.6 cents against 12.9 for the Americans and 18.4 for the Europeans. In other words, the overmanning of British Airways was more than offset by the low wages. In this respect British Airways was little different from the rest of the economy, including the private sector.

The overmanned areas were identified - approximately 80% of the problem was in flight operations, engineering and ground handling - and detailed targets were worked out by British Airways management services personnel, with all the divisional heads involved. At that particular stage return on net assets was 12.4%. In common with the rest of the industry, the forward projections were quite optimistic with British Airways expecting to double traffic in eight years. The staff were informed that the Company objective "of achieving levels of staff productivity at least equal to the average of other leading European and North American Carriers can, in general,

"be realised over a reasonable period of time through natural wastage and retirement on two main provisos:

- " (i) Revenue and output targets are achieved which, in turn, are heavily dependant on providing a reliable high performance service; and
- "(ii) The Unions and men cooperate with management in the introduction of new working methods. This will involve re-negotiation of agreements and a more flexible approach to restrictive practices, rostering and automation.

"There may nevertheless be a few areas where these measures will not of themselves suffice to raise productivity to the required levels. Plans are being drawn up for re-training, re-deployment and voluntary retirement schemes."

Three years, one oil crisis, two major swings in the exchange value of sterling, and an economic depression later, British Airways has had to adjust its sights. It would be fair to criticise the management for not foreseeing these events (who did?) but to give the impression that the long-serving employees of British Airways were unaware of the overmanning problems is not correct.

Finance and Accounts

British Airways had an accounting system which produced monthly management figures against budget and previous year, quarterly accounts and annual accounts all in the time span normal for a well run company. Since broadly the same people were responsible post-1978, it is difficult to see how the performance could have deteriorated to the extent that various public pronouncements would lead one to believe.

20th October 1982.