



10 DOWNING STREET

From the Private Secretary

12 September 1984

CAA REVIEW: BRITISH MIDLAND AIRWAYS

Mr Michael Bishop, Chairman and Managing Director of British Midland Airways came to see the Prime Minister today. Your Secretary of State was also present. I attach a copy of the letter which Mr Bishop had sent to the Prime Minister. Mr Bishop said that British Midland Airways had come into existence as a result of a very large management buy-out in 1978 and it had now grown to a turnover of £110 million. British Midland Airways had the second largest number of movements out of Heathrow and it was the only British airline competing with British Airways there. BMA had been one of the largest private investors in Liverpool following its takeover of the air routes from Speke. It was also the largest UK purchaser of Shorts' aircraft. He felt these points qualified him to speak for the smaller independent airlines.

Mr Bishop said that in the public brawl, which he had sought to stay out of, the fundamental arguments about a better competitive structure for the UK air industry had been submerged by political arguments. He said many of the difficulties arose from industrial relations' problems at British Airways. He acknowledged that BAs performance had been transformed but in the process the management had given undertakings to the staff and the unions that it would not shed routes or declare further redundancies. He believed that many of BAs routes were only marginally profitable, eg. the shuttle to Scotland, and were kept in being by cross-subsidy from profitable international routes. When BA operated under the discipline of shareholders there would be strong commercial pressure to shed these routes but meanwhile BA were hanging on to them to fulfil the undertakings given to the staff and to deny the smaller airlines an opportunity to make a go of them. Eventually, under commercial pressures, these routes might be relinquished but by then the smaller airlines might not be

in existence to take advantage of them.

His approach differed from that of British Caledonian. He felt the emphasis should be on making BA surrender these marginal routes rather than forcing them to relinquish profitable international routes. Opposition to this had come not just from BA but from the Labour-controlled councils in Birmingham and Manchester who supported BAs wish to hang on to the services to other European cities.

Mr Bishop said the manpower resources of the CAA had been reduced. If it was to tackle seriously the task of enforcing fair competition it would need to be strengthened.

Mr Bishop said BMA was the only UK scheduled airline apart from BA operating from Heathrow but this was solely for domestic routes. BMA should be allowed to operate international routes as well which could be done without bringing a new operator into Heathrow. He argued that domestic deregulation without greater access to international routes would actually be harmful to the smaller companies as BA would be able to undermine them.

Mr Bishop said the uncertainty arising from the CAA review and the privatisation of BA was already beginning to affect the finance available to the smaller airlines. Their banks were becoming worried about their ability to survive if no changes were made to improve the competitive balance of the UK industry.

The Prime Minister thanked Mr Bishop for putting his case so cogently and effectively. She said the Government would bear in mind the points he had made in coming to its decisions.

I am copying this letter to David Peretz (H M Treasury), David Morris (Lord Privy Seal's Office), Callum McCarthy (Department of Trade and Industry), and Murdo McLean (Chief Whip's Office).

Andrew Turnbull

Miss Dinah Nicholls,  
Department of Transport