



DEPARTMENT  
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cc PS/Mrs Chalker CCNO  
PS/Mr Spear  
PS/Sir P Legg  
Mr Clarke  
Mr Rhodes  
Mr Fuhr  
Mr Holmes (cutliff)

13000/85

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

18 September 1985

Dear Chancellor,

Handwritten initials and vertical lines

CF  
BIA for 26/9 in relation  
to rise 66.

DRW

24/9.

BA PAY

The Chief Executive of British Airways, Colin Marshall, has written to me today to say that he is under exceptionally heavy pressure to open pay negotiations with his 6,800 engineering grades in the BA engineering National Sectional Panel. Although the pay anniversary is not until 1 January 1986, following the two-year settlement which came into effect in 1984, Mr Marshall explains that pressure for relatively early negotiations has arisen because rates in BA, not least in the engineering grades, have fallen well behind market rates. This is primarily the result of internal pay restraint during the BA "survival package" of the early 1980s. Disquiet amongst engineers has been exacerbated by a recent settlement with engineers at British Caledonian which means that BA rates are now up to some 30% below the British Caledonian analogues. This disquiet has recently been manifested in sporadic industrial action by engineers at Heathrow.

The extent to which BA pay has fallen behind that of the independent airlines has tended to frustrate management's attempts to secure greater productivity; employees have been unwilling to co-operate because they regard their pay rates as unjustifiably low. It is important to BA that they make progress on productivity if they are to continue their success in the fiercely competitive international aviation market because the benefits of the major improvements generated by the "survival package" are now starting to tail off. Moreover, the drastic reductions which BA have made over the past few years have left a legacy of anomalous internal pay relativities and unclear job contents which are transparently due for resolution.

Against the background of the heavy pressure for negotiations BA have decided to meet the engineering grades' unions on Monday 23 September. Colin Marshall has indicated to me that he is preparing a complex offer which would effectively invite the unions to agree a restructuring of pay and grades throughout the engineering discipline. The package is estimated to be worth some 8% on basic rates, of which about half would be self-financed through the improved productivity which is integral to the restructuring exercise. BA expect the union side to press for a much larger pay rise in return for grade restructuring and, if they are forced, would be prepared to go to 10% on basic rates of which 4% would be recovered through productivity. BA will seek, if at all possible, another two year deal, the first year as set out above and the second year increasing rates by a further 7%, of which 2% would be recovered through productivity.

I naturally support BA's objective of building on their overall competitiveness, and there are good management reasons for a logical restructuring of the engineering grades. It is also beyond doubt that, according to BA's own figures, their workforce is now under-paid according to market rates and that a strike, by engineers in the first instance, would be inevitable if management took too tough a line in negotiations. That could, of course, have severely adverse implications for our own proposals to achieve a successful flotation of BA early in the new financial year. So while I know that you are bound to be concerned, as indeed I am, about the repercussive implications for negotiations elsewhere I think that we must really allow BA to make their own business judgements, and refrain from intervening. I have, however, made it clear to Colin Marshall that I think his proposals are high and I have asked him to make every effort to achieve the keenest settlement he possibly can, to ensure the most helpful public presentation of whatever deal emerges, and to keep me closely in touch with developments.

BA will subsequently have to open pay talks with the remaining 9 National Sectional Panels, covering the rest of their employees. They will again press for productivity offsets, especially from pilots where there are important gains to be made. I have again asked that I be kept in touch and, in turn, will keep you abreast of important developments.

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

*W*  
*W.D.* Richard Allen  
(Private Secretary)

*for* NICHOLAS RIDLEY (approved by the Secretary  
of State - signed in his name).

AEROSPACE : BA Pay : PE 4.

