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The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

10 March 1986

[Handwritten signature]

Dear John

BA PAY

Thank you for your letter of 4 March about BA's pay negotiations.

You will recall that, at the outset of the negotiations, I explained that BA were facing a number of difficult issues this year. It was their perception, as confirmed by a survey commissioned from consultants, that pay rates for some important groups of staff had fallen behind those of certain of their UK competitors. In addition, during the period when BA substantially reduced their workforce a number of internal anomalies were inevitably created. What BA have therefore set out to do this year is to carry out a thoroughgoing restructuring of the workforce in an effort to ensure their long term profitability in a highly competitive market. I believe that the current pay negotiations must be seen in that light.

Negotiations are still in progress with the engineers, cabin crew and ground service staff where a range of productivity improvements and job restructuring is under discussion. I understand that it is still not at all certain that a settlement will be reached with the engineers on the basis of the current offer. Provisional agreement has been reached with the pilots on a deal which involves a complete revision of pay scales and new working schedules leading to productivity improvements of up to 15% and a reduction in the pilot requirement of 10%. As recorded in the PSP(O) report, the overall effect of the agreement is to increase the paybill for pilots by 7.8%. I appreciate that this will mean higher average earnings increases for some staff than we would have liked. But we must remember that BA are seeking to adjust the relativities within this

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group to take account of decreased promotion opportunities and the impact this will have on their overall earning capacity compared with that enjoyed by their counterparts in other airlines.

You referred in your letter to the fact that some other airlines are considering freezing pay for their employees. My understanding is that this is precisely because of BA's extremely competitive position. I do not believe they intend jeopardising that position in current circumstances. Of course, simple comparability arguments on their own should not be supported. But, as we have recently had to acknowledge in respect of civil service computer staff and other specialist grades, market forces cannot be totally ignored. As regards BA's pilot workforce, it is not simply a question of their wishing to shed pilots.

BA do not have a single pilot under thirty and stand to lose 60% of the current workforce over the next decade or so. They therefore need to ensure that conditions are created which will enable them to recruit pilots for the future.

I can understand your concern about increases for particular groups of workers which, on the face of it, appear large. The fact that the negotiations have been so prolonged, however, is a clear indication that the changes BA are seeking are by no means an easy option. While the average earnings effect may in some cases be higher, it is BA's intention to secure settlements this year which, overall, will average around 8% of total staff costs offset by significant savings from improved productivity.

Bearing in mind that the negotiations have been proceeding for 6 months and are now nearing their conclusion, I do not think there is anything to be gained from intervening with Lord King about them.

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

*Yours
arm*
Nicholas

NICHOLAS RIDLEY

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