

# RESTATE THE CASE

## Airline privatisation

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### Why is this important?

Privatisation has brought numerous benefits across a variety of former state-owned industries in the UK. Yet the renationalisation of airlines is not as far-fetched as it sounds: 2017 polling suggested that 27 and 23 per cent of the public wanted to nationalise airlines and travel agents respectively.<sup>1</sup> Thomas Cook was taken into public ownership by the postwar Attlee government<sup>2</sup> and the administration of Boris Johnson was under significant pressure to intervene on Flybe, a UK regional airline.<sup>3</sup>

### Why is this a good thing?

The price of foreign travel has declined substantially since the privatisation of British Airways and liberalising of the market, although congestion at airports<sup>4</sup> and air passenger duty (APD)<sup>5</sup> have been key drivers of higher ticket prices in recent years.

Consumer choice has also improved. No-frills airlines Easyjet, a UK-registered airline, carried 71 million passengers in 2018, 35 million more than British Airways; Ryanair, which has a UK-dual listing, flew more passengers still. In 2017, airlines flying from UK airports went directly to 370 destinations in more than 100 countries worldwide.<sup>6</sup>

British Airways has seen a marked increase in value added and profitability since its privatisation. The initial years following privatisation saw a more than fourfold increase in the average annual rate of return on capital employed. Profitability was also “significantly greater than that achieved under state ownership”.<sup>7</sup>

Additionally, the net assets of the various British Airways pension schemes are now approaching £2 billion, with a much improved ability to meet pension costs.<sup>8</sup> Strong revenue growth, load factors and operating profit are up substantially since the peak in oil prices in 2008.<sup>9</sup>

Recent analysis suggests that attempts to slow the proliferation routes, and the accompanying increase in regional connectivity, could limit the wider benefits to the UK economy. The Airports Commission suggest that without more capacity, additional travel costs would total up to £3-4 billion by 2050.<sup>10</sup>

### What was wrong with nationalised airlines?

The nationalised post-war era of UK aviation meant that the sole British national airline was protected from competition on domestic routes. They were also permitted to operate only a limited amount of provincial services.<sup>11</sup>

The Civil Aviation Act 1980 converted British Airways from a public corporation to a limited liability company (though the full privatisation eventually occurred only in 1987). In a clear indication of the desirability of a private rather than publicly-owned airline, the sale was 23 times subscribed upon issuance of the shares and also generated £1.9 billion for the exchequer (in 2019-20 prices).<sup>12,13</sup>

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<sup>1</sup> Legatum Institute, *Public opinion in the post-Brexit era: Economic attitudes in modern Britain*, October 2017.

<sup>2</sup> Willman, J., Nationalisation: a blast from the past, *Financial Times*, 18 January 2008.

<sup>3</sup> BBC, *Flybe: Viable business or destined to fail?*, 17 January 2020, [www.bbc.co.uk/news/business-51133166](http://www.bbc.co.uk/news/business-51133166), (accessed 21 February 2020).

<sup>4</sup> Frontier Economics, *Estimating the congestion premium at Heathrow: a report prepared for Heathrow*, May 2019.

<sup>5</sup> Frontier Economics, *The Impact Of Air Passenger Duty On Airline Route Economics: A report prepared for Airlines UK*, September 2018).

<sup>6</sup> HM Government, *Beyond the horizon: The future of UK aviation*, July 2017, p. 8.

<sup>7</sup> Martin, S., & Parker, D., *The Impact of Privatization: Ownership and Corporate Performance in the United Kingdom*, Routledge, 1997, pp. 89-91.

<sup>8</sup> International Airlines Group, *British Airways Plc: Annual Report and Accounts Year ended 31 December 2018*, 26 March 2019.

<sup>9</sup> *Ibid*, p. 5.

<sup>10</sup> Airports Commission, *Airports Commission: Final Report*,

<sup>11</sup> Budd, L., & Ison, S., *The UK domestic air transport system: how and why is it changing?*, Government Office for Science, 2019, p. 5.

<sup>12</sup> National Audit Office, *Department for Transport: Sale of Government Shareholding British Airways plc*, 8 July 1987, p. 14.

<sup>13</sup> HM Treasury, *GDP deflators at market prices, and money GDP December 2019 (Quarterly National Accounts)*, 7 January 2020, [www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2019-quarterly-national-accounts](http://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2019-quarterly-national-accounts), (accessed 18 February 2020).

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Equally, numerous international comparisons before privatisation show that the nationalised British Airways had poor productivity. A 1979 study found that BA had the highest margin of actual over predicted cost relative to 21 airlines around the world. Private airlines based in North America, such as Delta, tended to have the best performance.<sup>14</sup>

### **What should be done?**

The commercial aviation sector in the UK should be further liberalised. The Open Skies agreement between the EU and US should be expanded by the UK to other countries. The agreement ended limits on which airlines are allowed to fly between the US and EU; any EU airline can also fly to any airport in the US from any in the EU.<sup>15</sup>

Finally, the potential assurances to Flybe – such as a delay in APD payments and short-term loan – should not be repeated. APD should be cut across the whole of the UK – for both short and long haul flights – with a view to its eventual abolition in the future. Any tailored deal to a specific airline – be that a government-backed line of credit or a delay in APD payments – must be resisted.

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<sup>14</sup> Ashworth, M., & Forsyth, P., *Civil Aviation Policy and the Privatisation of British Airways*, Institute for Fiscal Studies, 1985, p. 47.

<sup>15</sup> BBC News, *Open skies deal comes into effect*, 31 March 2008, <http://news.bbc.co.uk/1/hi/business/7318455.stm>, (accessed 18 February 2020).