British Airways finances explained. Why there is no need to 'fire and rehire' the workforce.

BA is a strong business which is suffering a serious but only short to medium-term liquidity challenge from COVID-19.

  - BA's balance sheet was very strong when they entered the COVID-19 crisis: they have the cash and reserves to ride out much of the crisis.
  - BA also has access to liquidity from debt and equity markets should they need it; and financial support from government via loans or Project Birch *in extremis*. They can weather the impact of the COVID-19 crisis.
  - BA was highly profitable in 2019 with current employee numbers on current terms, mainly due to their lucrative Heathrow slots which give them a secure long term advantage over other carriers.
  - IAG expect things to return to normal by 2023, and when they do, we expect them to make similar profits again; this crisis is not a long-term *profitability* crisis, it is a short to medium term *liquidity* crunch which loans not job losses can solve[i].

- However, management have chosen to cynically exploit the climate of fear by threatening to 'fire and rehire' the entire workforce of over 42,000 employees, only bringing them back if they agree to vastly inferior pay and conditions by mid-June; 12,000 employees have also been threatened with permanent redundancy.
- Cutting BA labour costs by 30% will realise cost savings of less than 3.5% for parent company IAG, which will not be the difference between solvency or insolvency. They are trying to strong-arm employees into accepting work intensification and new terms and conditions so they can send even more dividends back to IAG when conditions improve. BA do not have a long term profitability crisis so don't need to do this. They need loans not job losses

  It is cynical that BA are doing this after taking taxpayers money through the furlough scheme and the UK's Coronavirus Corporate Finance Facility

BA's financial position before the COVID-19 disruption

- BA was a growing and highly profitable firm, and arguably a market leader:
  - British Airways revenues grew from just under £8bn in 2010 to £13.3bn in 2019[ii] – a growth of around two thirds. This was a growing business
  - Operating profit grew from a loss of £231m in 2010 to an impressive operating profit of £1,921m in 2019[iii]. This was a profitable business
  - BA distributed £1,160m in total to its Spanish parent[iv], IAG over 2018 and 2019; IAG then paid out €1,935m in dividends and buybacks to its shareholders[v]. This was a cash-cow for the parent and its shareholders
  - BA's earnings before interest tax and depreciation (EBITDA) margin, return on assets (RoA) and return on equity (RoE) were much higher than closes rivals like Lufthansa and Air France-KLM. This is a market leading business.

- BA's balance sheet is robust enough to weather this storm:
  - BA's cash reserves and deposits stood at £2.6bn and shareholder equity £5.8bn in 2019[vi]. This is a secure business
  - BA has modest amounts of debt and interest payments which were around 10% of cash-flow[vii]. This is a safe business with lots of buffers.

The attack on the workforce is cynical, unjust and will prove counterproductive:

- Workforce expenses are not BA's largest cost, fuel is: in 2019 jet fuel was 28% of total costs; workers expenses were just 22%[viii]. And fuel costs are now 75% cheaper than they were[ix]. *Why should the workforce lose their jobs and working conditions when labour costs are already low?*
- BA have the cash now: IAG (BA's parent company) have accessed £300m from the UK's Coronavirus Corporate Finance Facility and €1bn from Spain's Instituto de Crédito Oficial ('ICO') facility. British Airways have also extended their revolving loans. *This is a medium term liquidity crisis not a long term profitability crisis so why attack the workforce?*
- BA has untapped options to raise cash in the future: BA could raise funds through IAG's Qatari shareholders, by issuing bonds, by accessing debt or by taking up loans offered by government. And if all that fails it could apply for the Government's new 'Project Birch' bailout scheme for large firms. Lufthansa have already taken a €9bn rescue deal with the German government, why can't BA? *Why is management turning on the workforce at this time of great uncertainty, when there are other ways of covering their losses?*
- Management have made costly errors: IAG bought out its fuel hedge at a cost of €1.325bn[x] – an unnecessarily risky gamble which backfired. This is nearly twice the cost of what might be gained by sacking 12,000 BA employees. *Why should the UK workforce pay for IAG's poor management decision making on fuel contracts?*
- Management want redundancies and restructuring now to give away to IAG when travel returns. BA is the jewel in IAG's crown – it creates 66.4% of the operating company profit for the group[xi] and so cross-subsidises its poorer performing carriers. *Why should British workers, and the British state (if workers are made redundant), pay for this cross subsidy? If management get their way, when travel normalises, that cross subsidy will only increase.*
- The scale of the threatened redundancies and cuts to pay and conditions are a bully-boy scare tactic: if BA make the redundancies they threaten, they will have to cut flights. If airlines don't put planes in the air, then they must surrender their slots, which BA will not want to do. So their threat is an attempt to strong-arm British workers into accepting worse terms and conditions, so that when the market returns they can increase their already large dividend payments to their Spanish parent. *Why should British workers give up good jobs, so that Spanish companies and their Qatari shareholders get rich?*

[i] IAG projects a return to normality around 2023. https://www.ainonline.com/aviation-news/air-transport/2020-05-07/iag-cuts-deliveries-full-recovery-not-anticipated-2023

[ii] https://www.iairgroup.com/en/investors-and-shareholders/results-and-reports British Airways Annual Report and Accounts 2010 page 56. British Airways Annual Report and Accounts 2019 page 27

[iii] https://www.iairgroup.com/en/investors-and-shareholders/results-and-reports British Airways Annual Report and Accounts 2010 page 56. British Airways Annual Report and Accounts 2019 page 27

[iv] https://www.iairgroup.com/~/media/Files/I/IAG/documents/British%20Airways%20Plc%20Annual%20Report%20and%20Accounts%202019.pdf British Airways Annual Report and Accounts 2019 page 31

[v] https://www.iairgroup.com/~/media/Files/I/IAG/documents/IAG%20Annual%20report%20and%20accounts%202019.pdf IAG Annual Report and Accounts, p.13

[vi] https://www.iairgroup.com/~/media/Files/I/IAG/documents/British%20Airways%20Plc%20Annual%20Report%20and%20Accounts%202019.pdf British Airways Annual Report and Accounts 2019 page 29

[vii] https://www.iairgroup.com/~/media/Files/I/IAG/documents/British%20Airways%20Plc%20Annual%20Report%20and%20Accounts%202019.pdf British Airways Annual Report and Accounts 2019 page 30

[viii] https://www.iairgroup.com/~/media/Files/I/IAG/documents/British%20Airways%20Plc%20Annual%20Report%20and%20Accounts%202019.pdf British Airways Annual Report and Accounts 2019 page 27

[ix] https://www.iata.org/en/publications/economics/fuel-monitor/

[x] https://www.iairgroup.com/~/media/Files/I/IAG/documents/interim-management-statement-for-the-three-months-to-march-31-2020.pdf IAG Interim consolidated results for the three months to March 31, 2020.

[xi] https://www.iairgroup.com/~/media/Files/I/IAG/documents/IAG%20Annual%20report%20and%20accounts%202019.pdf IAG Annual Report and Accounts page 148