

PREM 19/1665

2/15

Confidential Filing

The Future and Structure of
British Airways

The Price Waterhouse Report

CAA Review

AEROSPACE

PE 1: MARCH 1982

PE 4: MAY 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.5.85		18.11.85					
22.5.85		19.11.85					
31.5.85		26/11/85					
5/6/85		28/11/85					
10/6/85		2/12/85					
11.6.85		4.12.85					
2/6/85		6.12.85					
26.6.85		19.12.85					
3.7.85		20.12.85					
15.7.85		30.12.85					
21.8.85		6.1.86					
18.9.85		13.1.86					
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7.10.85		22.1.86					
14.10.85		24.1.86					
21.10.85		5.2.86					
25.10.85		24.1.86					
30.10.85							
4.11.85		ENDS					

Material used by
official Historian
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PART 4 ends:-

PMG to CST 24.1.86

PART 5 begins:-

Transport to DN 5.2.86

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 5 June 1985, columns 309-310 "Airports policy"
2. Cmnd. 9542: Airports Policy [HMSO June 1985 ISBN 0 10 195420 4]

Signed Wayland Date 28 August 2014

PREM Records Team

CBG



Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213..... 5949
Switchboard 01-213 3000

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

24 January 1986

Pomie Niciter +

DRS

24/1

mt

De John,

BAA PAY

at flap

I have seen the correspondence between Nicholas Ridley and yourself about BAA pay.

I feel there is a danger that we may be becoming too complacent about our alleged success in reducing public sector trading settlements. Undoubtedly since 1981/82 the general level of settlements have fallen but as the attached table shows, the average level of settlements in the public trading sector over the last 3 years have been only slightly lower than those in the private sector. Some nationalised industries have negotiated lower settlements, such as some of the transport industries referred to in Nicholas' letter, but I do not think we should slip into persuading ourselves that special pressures have built up on the public trading sector after settlements which have on average almost kept pace with the private sector.

The limited success of previous years reinforces the need to continue to press for moderate settlements in the public trading sector during the present payround.

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

KENNETH CLARKE

PERCENTAGE INCREASES IN SETTLEMENTS

	1982/83	1983/84	1984/85	Cumulative
Private Sector	5¼	5¼-5½	6	18-18¼
Public Trading Sector	5½	5.0	5½	17

AEROSPACE PT4
British Airways





CSB

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 LONDON SW1

NR

24 January 1986

Dear Nicholas

AIRPORTS BILL

I have seen your letter of 30 December to the Chancellor about two aspects of the Airports Bill which are likely to be particularly controversial in Parliament.

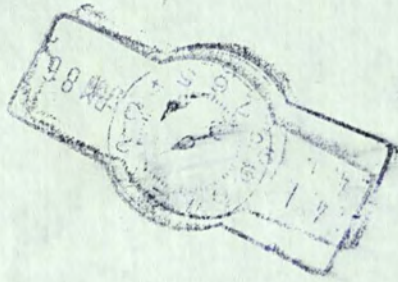
This letter is to record, before the Bill's second reading on Monday, my agreement that the pressures you describe, and particularly those for the separate privatisation of Stansted, should be resisted robustly in the way you propose. There are powerful and cogent arguments about the system characteristics of the London airports to support the privatisation of Stansted as part of the BAA Company. I suggest that we should base our defence against pressure for the separate privatisation of Stansted on these arguments and we should not in any circumstances imply that our proposal is based on any view about likely proceeds. Such an implication would seem more likely to fuel the pressure for change than to reduce it.

I am copying this letter to the PM, other members of E(A), Sir Robert Armstrong and the Chief Whip.

John Moore

JOHN MOORE

AEROSPACE: Future of BA: Pt 4



eeBA



RECEIVED IN
24 JAN 1986
PARLIAMENTARY UNDER
SECRETARY OF STATES
OFFICE (CCA)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: R/PSO/400/86
Your ref:

MINISTER FOR AVIATION

22 January 1986

Michael Howard QC MP
Department of Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

NSM

TO MR ALLEN
FOR ADVICE AND
LAST REPLY IF
APPROPRIATE
PLEASE BY:

Copies to
PS/SSS
PS/SSR S.H.
M. JENNER
M. TAYLOR
M. WOOLMAN
M. BARK

3111

Dear Michael

at 11am

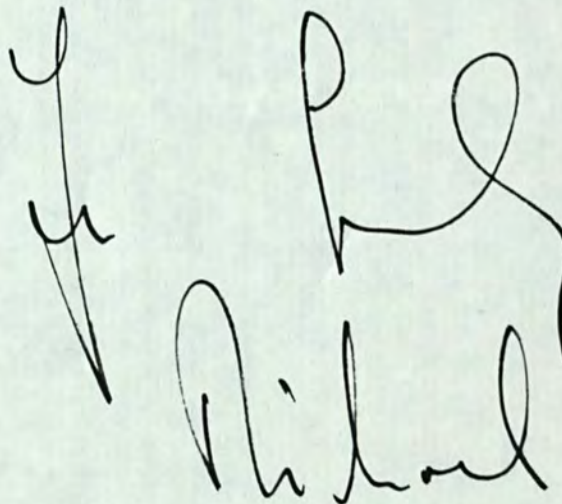
Thank you for your letter of 13 January to Nicholas Ridley, which came as something of a surprise at 8.30pm on the eve of the "L" committee meeting at which the Airports Bill was to be discussed, and in which you maintained that the Bill's provisions for accounting transparency did not meet all the conditions on which you had agreed to our proposals for economic regulation.

A misunderstanding seems to have arisen between our Departments. I have to say that your letter of 30 October to Lynda Chalker, which gave no indication of the extent of transparency you were seeking between different airport activities, left itself open to misinterpretation. At that stage of drafting, we were proposing that airports' accounts should show only subsidy received from external sources. Your officials, in commenting on the proposals, had said that this was insufficient and that there should also be transparency between different activities within an airport. They gave the specific example of traffic and commercial activities. It was hardly surprising that, when we saw your letter, we assumed that the same proposals meant the same thing. Nicholas and I had no difficulty in agreeing to these.

Recent exchanges with your officials have exposed a misunderstanding. In the intervening period, the MMC report on the BAA's commercial activities was published with a recommendation along the same sort of lines. Since this degree of transparency would go much further than has been demanded from any other privatised industry it needs careful and thorough consideration. My officials made clear to yours that we would be considering this in the context of our wider consideration of the MMC report and acknowledged that, should that particular recommendation be accepted, an appropriate amendment would need to be made to the Bill. It was thought that your officials had accepted this as a reasonable approach.

I realise that, since no Minister from your Department was able to be at "L" committee, you wished to put up a marker that the question of transparency was an outstanding point between us. But to say that you could not agree to the Bill as drafted - particularly in the light of the assurances my officials had given yours - was perhaps a little strong. Fortunately Nicholas Ridley's office were able to clarify with yours that you did not intend to block the Bill's introduction on this point and it has now had its first reading and been published. As to the degree of transparency that you wish to see imposed I have to say that the extent of internal transparency in an airport's accounts is an issue which raises important questions of principle. I am doubtful how far we should seek to interfere in the accounting practices of a private sector company. I also very much doubt the practicality of what you suggest. Would the publication of such information be necessary at all, since the information could be obtained by the regulator (whether the CAA or the DGFT or the MMC) in requiring such information for the performance of his functions?

I am not attracted to your ideas, but I suggest our officials could usefully pursue this primarily in the context of a response to the MMC's recent recommendations, on which they are already in touch.

A handwritten signature in black ink, appearing to read "Michael Spicer". The signature is written in a cursive, flowing style with a large initial "M" and "S".

MICHAEL SPICER

LTLACW



COPIED TO
PS/SOS
PS/SIA O.H.
FR US/NER
FR TREADGOLD
FR WOOLMAN
MR ALLEN
(WITH PAPERS)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Parliamentary Under Secretary of State
for Corporate and Consumer Affairs

Michael Howard QC MP

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London
SW1

13th January 1986

Dear Nicholas

AIRPORTS BILL

My letter of 30 October to Lynda Chalker set out the terms on which I was willing to agree to your proposals. Your minute to the Prime Minister of 4 November accepted all my conditions, and undertook to see that these were reflected in the Clauses drafted by Parliamentary Counsel. One of these conditions was:

"That the CAA's powers and duties should be extended to require transparency in the accounts of an airport undertaking, not simply as between different airports, but also as between the different activities of an airport."

The Bill as drafted does not meet this condition. I understand that your Department have interpreted this request as being one for transparency not between the several different activities of an airport, but simply between two types of activity: aeronautical activities on the one hand, and all others (in aggregate) on the other. I do not consider that this meets my point. Nor do I consider that such a limited transparency requirement is sufficient to prevent the risk of anti-competitive cross-subsidisation.

Your Department's view, as I understand it, is that all that is necessary is for the CAA to be able to assess the extent to which aeronautical charges are being subsidised by other activities. But airports have monopoly power, which could be exercised to effect cross-subsidisation not simply as between commercial and aeronautical charges, but also between different commercial activities. It is important that accounting information relating to these activities should be publicly available. This view is supported by the recommendations of the recent MMC Report on the BAA under Section 11 of the Competition Act, which recommends in

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19
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BOARD OF TRADE
BICENTENARY

14/15/1



favour of disaggregated accounting information about different airport activities. For these reasons, I cannot agree to the Bill as it stands. In my view, the minimum level of disaggregation necessary is for separate accounts to be given of the aggregate income and expenditure for the following activities:

- duty and tax free shops;
- catering activities;
- car parks;
- rents and properties;
- and all other activities combined.

On a separate point, I understand that your officials have agreed to the deletion of the word "only" after the words "shall have regard" in Clause 39(5).

I am copying this letter to members of L and EA Committees.

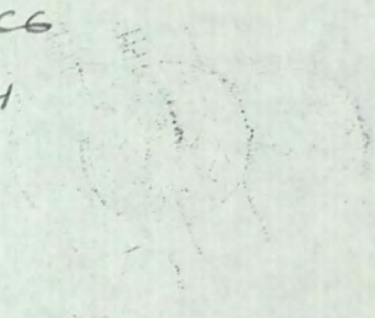
*Yours ever
Michael*

MICHAEL HOWARD



AGROSPACE

BA PTU





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

N. B. M.
22 January 1986

Dear Nick,

LAKER CLASS ACTION SETTLEMENT: CLAIMS BY GOVERNMENT DEPARTMENTS

Thank you for your letter of 15 January.

I am quite content both with the proposal that departments should not submit claims under the terms of the class action settlement, and with the draft Answer. I do not, however, think it would be right for a Treasury Minister to give an Answer which leans so heavily on matters of aviation policy. In cases such as this it is the usual practice for the departmental Minister to inform Parliament.

I am copying this letter to the Prime Minister, Cabinet colleagues and to Sir Robert Armstrong.

Yours,

JH

JOHN MacGREGOR

AEROSPACE : Future of BA : R 4



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CC/BG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Secretary of State for Trade and Industry

20 January 1986

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

W BPN

Dear Tom,

LAKER CLASS ACTION SETTLEMENT : CLAIMS BY GOVERNMENT DEPARTMENTS

Nick Ridley has copied to me his letters to you of 13 December and 15 January; and I have also seen Geoffrey Howe's minute to you of 10 January. *at day*

2 Like Geoffrey Howe, I am naturally reluctant to forego any sums which might otherwise accrue to Government Departments. But I very much take Nick Ridley's point that our position would be difficult to explain, if we chose to take windfall benefits as a result of an action which we had consistently criticized. I would therefore go along with what Nick Ridley has proposed.

3 I am copying this letter to the Prime Minister, other Cabinet colleagues, and to Sir Robert Armstrong.

Leon

LEON BRITTAN

JF5AVG

AGROSPACE PTU
British Airways





CCBG

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

16 January 1986

Dear Michael,

NBM

AIRPORTS BILL

You wrote to Nicholas Ridley on 13 January concerning a point you had ^{at Harp.} on the text of the Airports Bill, which was considered at Legislation Committee on 14 January. Since you were not able to attend that meeting, it was not possible to resolve this point and the Bill was approved for introduction this week. I suggest the best way now to carry this forward is for you and Nicholas Ridley to discuss the matter bilaterally and to see if you can reach agreement which could then be embodied in amendments tabled at Committee Stage of the Bill. If you are not able to reach agreement then I suspect that the matter is one that will need to be resolved in E(A) rather than by L as it is likely that it is a policy question that will be involved.

I am copying this letter to members of L and E(A) Committees.

John Biffen

JOHN BIFFEN

Michael Howard Esq QC MP
Parliamentary Under Secretary of State
Department of Trade and Industry



AGROSPACG PTY
BA.



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

15 January 1986

NRBON.

Dear John

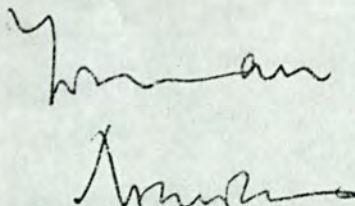
LAKER CLASS ACTION SETTLEMENT: CLAIMS BY GOVERNMENT DEPARTMENTS

Further to my letter to you of 13 December, I understand that your officials have advised that if Government Departments are not to submit claims for coupons, Parliament should be told by means of an arranged written question and answer. They also suggest that the position of Accounting Officers should be protected by the Treasury issuing a DAO letter. In view of the rather exceptional policy reasons which underline this decision, I am prepared to agree to this and enclose a draft question and answer for your consideration.

As the issue at stake here is one of financial propriety which will affect all Departments and will lead to the Treasury issuing a DAO letter, I hope you will agree that it would be appropriate for a Treasury Minister to answer such a question.

I feel that we ought to move relatively quickly to resolve this matter and announce our decision. Could I therefore ask colleagues to let me know by 22 January if they are not content with either the proposal not to claim or the arranged question and answer?

I am copying this to the Prime Minister, Cabinet colleagues and Sir Robert Armstrong.



NICHOLAS RIDLEY

Question

To ask /the Chancellor of the Exchequer/ whether Government Departments will apply for the coupons offered in the recently announced provisional settlement of the US anti-trust class action which arose out of the collapse of Laker Airways.

Answer

No Sir. As my Rt Hon and learned friend the Secretary of State of Trade and Industry explained to the House of 11 December, the Government's view is that the unilateral application of United States' anti-trust law to air services operated under the United Kingdom - US Air Services Agreement (Bermuda 2) is not compatible with the United Kingdom's rights under the Agreement and is damaging to the trading interests of the United Kingdom. Since the Government therefore consider that the bringing of the class action is incompatible with our rights under Bermuda 2, there can be no question of Government Departments benefitting from the settlement.

LEGAL PROCE

US GRAND JURY

PT 2



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CC 89



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

NBM

14 January 1986

Dear John

BAA PAY

Thank you for your letter of 6 January.

With DN 14/1

My letter of 30 December indicated the sort of competitive pressures BAA are under this year. These influences are indeed having their effect on recruitment and retention. For example, in a number of instances recently, BAA have received a nil response to job advertisements for craftsmen and electricians and have been obliged to appoint staff at well above the minimum level in order to secure the services of people of sufficient calibre. I think it is also important to stress the point I made in my letter of 30 December about Pay in the Public Trading Sector - that success in achieving low settlements in recent years makes it all the harder to maintain the downward pressure, particularly in an organisation where profits are increasing.

Nonetheless, I have stressed to BAA the need to keep their settlement as low as possible and, as a result of further discussions, their opening offer on 7 January was pitched at a little over 4% on earnings. They would hope not to have to move more than 1% or so above that figure but negotiations will be tough and, against the background outlined above, it may be unrealistic to expect a settlement below that of last year. I will keep you informed of any major developments.

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

John MacGregor
Nicholas Ridley

NICHOLAS RIDLEY

CONFIDENTIAL

ABROSPACE P 14

BA.

10/2/77



MR ADDISON

cc Mr Norgrove ✓

CIVIL AVIATION AUTHORITY

The Prime Minister suggested to the Transport Secretary yesterday that he might approach Christopher Tugendhat for the CAA post. Mr Ridley thought this an excellent idea and will sound him out.

C.D.P.

C D POWELL

13 January 1986

LTLACW



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CCBG

From the Parliamentary Under Secretary of State
for Corporate and Consumer Affairs

Michael Howard QC MP

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London
SW1

NRB

13th Jan, 1986

Dear Nicholas

AIRPORTS BILL

at Nap.

My letter of 30 October to Lynda Chalker set out the terms on which I was willing to agree to your proposals. Your minute to the Prime Minister of 4 November accepted all my conditions, and undertook to see that these were reflected in the Clauses drafted by Parliamentary Counsel. One of these conditions was:

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BICENTENARY



favour of disaggregated accounting information about different airport activities. For these reasons, I cannot agree to the Bill as it stands. In my view, the minimum level of disaggregation necessary is for separate accounts to be given of the aggregate income and expenditure for the following activities:

- duty and tax free shops;
- catering activities;
- car parks;
- rents and properties;
- and all other activities combined.

On a separate point, I understand that your officials have agreed to the deletion of the word "only" after the words "shall have regard" in Clause 39(5).

I am copying this letter to members of L and EA Committees.

*Yours ever
Michael*

MICHAEL HOWARD

AGROSPAC PTU
BRITISH AIRWAY



CC/BG.

FCS/86/007

NBM

CHIEF SECRETARY TO THE TREASURYLaker Class Actions Settlement : Claims
by Government Departments

attached

1. I understand that your officials are recommending to you, following Nicholas Ridley's letter to you of 13 December, that Government Departments should, as he proposes, forego claims on the Laker class actions coupon fund. I accept the force of Nicholas' argument that on grounds of principle it would be inconsistent for the Government to take advantage of a fund which we believe ought never to have come into existence in the first place. This settlement has been made out of court, and therefore technically is not a consequence of applying US anti-trust laws, but in practice it could not have been made without the threat of these laws hanging over airlines' heads. It is therefore "tainted" as far as our position on civil aviation and anti-trust is concerned.

2. At the same time I attach the highest importance to maximising receipts and thus reducing any claims on the Reserve. My Department is constantly on the lookout for ways to save money. The FCO would almost certainly have been the largest Whitehall claimant from this fund; and overall, the amount of compensation which Whitehall Departments might receive could be as much as £1m. Nevertheless, I am prepared to accept, with some reluctance, that in this case Government Departments should not take advantage of this fund.

/3. I am

CONFIDENTIAL



3. I am copying this letter to the Prime Minister
and Cabinet colleagues.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

Foreign & Commonwealth Office
10 January 1986

GEOFFREY HOWE

CONFIDENTIAL

LEGAL PROC. #12.

US GRAND JUR.



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CCRB

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

NBR

6 January 1986

Dear Secretary of State,

BAA PAY

Thank you for your letter of 30 December addressed to Nigel Lawson.

My letter of 26 November, with which you expressed general agreement, pointed out that we must try and obtain lower settlements than prevailed last year in the public trading sector. I am therefore rather concerned that the BAA are envisaging going as high as a package worth 6 per cent on average earnings, which would be $\frac{1}{2}$ per cent higher than last year. There does not seem to be any objective justification for an award at this level. I am not aware that the BAA are experiencing any recruitment or retention difficulties, and with inflation expected to decline to $3\frac{1}{2}$ per cent by the end of 1986, the employees could accept a much lower settlement than last year and still maintain or even improve their living standards. This is one of the earliest public trading sector groups to settle and it would be very helpful if they could set the rest an example by concluding a lower settlement than last year.

If we are to have any chance of securing a lower settlement an opening offer worth 5 per cent on average earnings looks too high. I could, at a pinch, accept 5 per cent as a final settlement but achieving this figure will surely require the BAA to pitch their opening offer somewhat lower. I would be grateful if you could make these points to the Chairman before the negotiating meeting.

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

Yours Sincerely,
Paul [Signature]

JOHN MACGREGOR
Approved by the Chief Secretary
and signed in his absence

CONFIDENTIAL



AEROSPACE

B.A.

PTU

CCBG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

NBP7.

30 December 1985

Dear Chancellor,

BAA PAY

I have now received details of BAA's pay intentions for this year. Their pay anniversary date is 1 January.

As you know, BAA's settlements in recent years have been quite reasonable - last year the earnings effect of their settlement was 5.5% compared with an inflation rate of 6.9%. This year they expect negotiations to be more difficult than usual. The prospects of privatisations together with BAA's increased profitability have raised expectations. In addition, pay negotiations affecting related companies - notably British Caledonian and British Airways - are having their influence. The pay of BAA's Fire Service is also an issue, as is the level of London weighting compared with other employers.

Against this background, pay claims ranging from 16% to 48% have been received. BAA will be responding to the unions on 7 January. Any offer they make will be restricted to pay increases that will result in average earnings rising by up to 5% with the possible need to increase the offer at a subsequent stage, probably by no more than 1%. The nature of the package will vary from group to group - for example, some employees may be offered a flat rate increase and others a percentage - but there will be various productivity elements contained in the offer, which is well within the pay bill provisions.

I have, of course, stressed to BAA the need to keep their settlement as low as possible but, in my view, their proposal is reasonable in the light of the various pressures they are facing this year. I shall, of course, keep you informed of major developments in the negotiations.

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

Yours Sincerely

J. Coulter

P.P. NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence).



CABG



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

30 December 1985

Prime Minister

Dear Nigel

DLR
30/12
ML

AIRPORTS BILL

I thought I should alert you to two aspects of our Bill proposals on which opposition seems to be growing amongst our backbench colleagues.

Conservative members from the North West, and possibly others will be pressing for the compulsory privatisation of local authority airports. They will be joined by the anti-Stansted lobby, by officers of the Aviation Committee, and by others to press for the separate privatisation of Stansted Airport.

I think it as well for colleagues to be aware of the arguments being marshalled by these groups and of the counter arguments which we will deploy if we continue to stand firm on these two issues.

First, on compulsory privatisation, it will be argued that there are good precedents, for instance, the compulsory sale of council houses and of publicly owned land; it will be said that the Socialist Governments of the 40s and 50s "sequestered" Municipal undertakings; and it will also be pointed out that the history of the ownership of an airport such as Manchester has been one of shares being taken arbitrarily from one authority and given to another, eg from the City to the Metropolitan County in 1973.

Against this we say that to compel local authorities to sell the shares in their airports would constitute a serious erosion of local authority independence and that it would be undesirable for a Conservative administration to be seen to be engaged in the sequestration of assets on this scale.

I believe that the opposition to our proposal to keep Stansted as part of the BAA airport company is likely to be the more serious threat to our proposals. It is quite possible that we will be defeated on this issue in Committee since the Labour and Liberal Parties are likely to find a way of voting with our own dissidents.

Opposition from our own side will range from those motivated by a desire to frustrate the development of Stansted to the increasing number of Conservative backbenchers who are anxious about privatised monopolies. (It will be virtually impossible to exclude these views from the Standing Committee since they are shared, for instance, by all officers of the Conservative Aviation Committee.)

Our case for retaining Stansted within the BAA company will be based first on the pressing need to develop Stansted rapidly up to 8mppa. I am doubtful whether this development would proceed at the necessary pace if Stansted were a separate company. Secondly, we argue that Heathrow, Gatwick and Stansted cannot be conceived as being genuinely competitive. Heathrow is undoubtedly the much preferred choice of airlines; the distribution of traffic between the airports will not be the function of competitive pressures but of the regulations and traffic distribution policies which we shall have to lay down. Thirdly, if Heathrow and Gatwick are privatised separately from Stansted and are bound by aeronautical and economic regulations, and are also full, it is difficult to know what benefits will flow from privatisation since there will be almost no scope for management initiatives. Fourthly it has to be said that separate privatisation is unlikely to raise as high a level of proceeds to the Treasury; indeed there is a risk that Stansted would not be saleable at all, at least in the short-term, and that the development would have to be financed for the time being from the public sector. In summary, we shall argue that the London airports are part of one system linked by the M25. - They were one system before the M25

feeble!

If we stand firm on these two issues we may well have to accept defeat on at least one of them in the Standing Committee, and to reverse the decision at the Report stage. I thought I should warn colleagues of the unrest which may lie ahead.

I am copying this letter to the Prime Minister, other members of E(A), and to Sir Robert Armstrong, & to the Chief Whip

Nicholas Ridley

NICHOLAS RIDLEY



cc/c

CONFIDENTIAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

20 December 1985

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

NBRM

N. Nich,

A BILATERAL COMPETITION REGIME FOR UK/US AVIATION

Thank you for sending me a copy of your letter of 17 December to Geoffrey Howe.

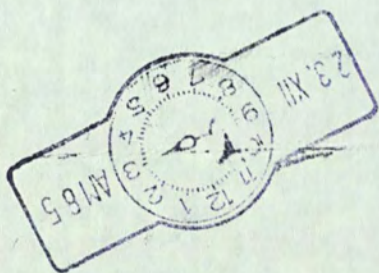
2 I am broadly content with what you propose. But the issues are intractable; and I very much agree that the line taken by your officials should be tentative and exploratory. I would enter a number of caveats. Looking to the US position, it will be important to be sensitive to developments in the work of the President's Task Force on Anti-Trust, not least because the President may by January have reached a view on its report. Looking to our own, we need to bear in mind that a range of important issues would need to be settled before we ourselves could give full backing to a scheme of the kind outlined in your letter. These include the question of how a scheme for competition in one sector would sit with our wider competition policy - itself to be under review. There is also the issue of Community competence. At a more detailed level, I foresee much time having to be spent over tricky issues touching offences, penalties, and recourse to the courts. For all these reasons, I am sure you are right in suggesting that your officials' approach to their US counterparts should be without commitment. It will be best for them to confine themselves to giving a broad outline of your ideas at this stage.

3 I am sending a copy of this letter to colleagues on MISC 112, to the Lord Chancellor, and to Sir Robert Armstrong.

Law,
LF
JF4AQZ

LEON BRITTAN

Aeropne Estore BA PC4





CFST BTJ
 WOD RO
 HMT CO
 PC

10 DOWNING STREET

From the Private Secretary

19 December 1985

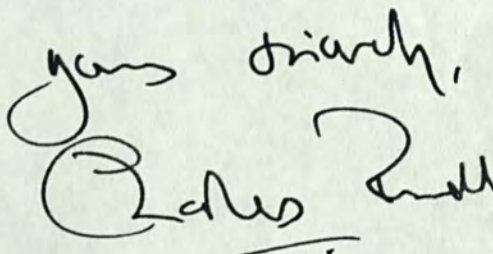
Dear Richard,

A BILATERAL COMPETITION REGIME FOR UK/US AVIATION

The Prime Minister has seen a copy of your Secretary of State's letter of 17 December to the Foreign Secretary proposing that discussion should be resumed with the United States Administration on possible arrangements for the control of anti-competitive behaviour on North Atlantic air services.

The Prime Minister is content with the terms in which it is proposed to pursue this issue, on the assumption that colleagues in MISC 112 are similarly content.

I am copying this letter to the Private Secretaries to members of MISC 112, to the Private Secretary to the Lord Chancellor and to Michael Stark (Cabinet Office).

Yours sincerely,


(Charles Powell)

Richard Allan, Esq.,
 Department of Transport.



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister

*An attempt to re-open
discussion with the
US on anti-trust in the
airline industry.
17 December 1985*

*Agree to proposed
approach to the
Americans?
CSP 18/11*

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Geoffrey

A BILATERAL COMPETITION REGIME FOR UK/US AVIATION

It is now just over a year since the President of the United States cleared the way for settlement of the Laker liquidator's case, and subsequently the class action, by terminating the criminal investigation of similar charges which was being conducted by a Grand Jury. The President's action also caused the United States team to withdraw from negotiations about arrangements to prevent future disputes about anti-trust under Bermuda 2, which had been making some progress on the basis that the Americans would remove UK/US aviation from the reach of civil actions under US anti-trust law in exchange for bilateral arrangements guaranteeing more effectively for the future that airline consultations which might have an anti-competitive character would not take place without the knowledge and consent of the aeronautical authorities, with penalties for infringement. In addition, as part of the same package, we were prepared to concede more liberal arrangements for the approval of airline tariffs on North Atlantic services.

All this had to be shelved because the President's decision (and our reaction to it) was so bitterly resented especially by the Department of Justice that they were not prepared to co-operate in further negotiations about future arrangements, at least for the time being, and without them no progress could be made. But tempers have eased now, many of the principal protagonists have moved on, and it has been agreed that when our officials are in Washington in the New Year for negotiations about the capacity control mechanism under the Bermuda 2 Agreement, they should also spend one day discussing arrangements for the control of anti-competitive behaviour on North Atlantic air services.

I do not think we can simply pick up the negotiations where they were left off last year. Our proposals for "transparency" in the consultation processes between airlines were a constructive contribution towards the resolution of the dispute which had given rise to the Laker case, but the US side were not at all convinced that we had either the power or the will to prevent anti-competitive behaviour by our airlines. Under the Sherman and Clayton Acts they had both the power and the will, and they were not going to give it up. In any case my Department has given more thought to these matters during the past year, and has come to the conclusion that stronger powers are needed to control anti-competitive behaviour in aviation particularly where, as on the North Atlantic, the regulatory activity of governments is being deliberately pruned back in order to make more room for airlines to exercise their commercial judgement in competing against one another. But it remains our conviction that, consistent with the approach to international aviation generally, any arrangements for controlling anti-competitive behaviour should rest on a firm bilaterally agreed foundation.

It is against this background that my officials have taken the lead in drawing up the enclosed scheme which, subject to your agreement and that of the other colleagues to whom I am circulating this letter, they would like to float with the Americans at the discussions arranged for the first week in January. At this stage the proposals can be no more than a preliminary outline of a possible regime. This would seek to identify those matters which would constitute anti-competitive behaviour and to provide that consultations on them would require the advance approval of aeronautical authorities. In the event of complaints alleging anti-competitive behaviour in other areas an investigation would be carried out either by the aeronautical authority (in our case the CAA) of the country which had designated the airline complained of, or by a commission consisting of representatives of the two aeronautical authorities and a third party acceptable to both sides. Implementation of the findings of these authorities or the commission would be through the national laws and procedures of the two countries.

I believe that a scheme on these lines would demonstrate to the Americans that we are serious about controlling anti-competitive behaviour by airlines on the North Atlantic, and might therefore be sufficient to induce them to consider removing the threat of anti-trust actions in this area, at all events in the US

civil courts. The removal of the civil anti-trust suit from aviation would be a valuable prize in itself but this and the installation of the new bilateral regime which I have in mind would of course require legislation both in Congress and in Parliament. We should have to grant new powers of investigation to the Civil Aviation Authority, and we should have to ensure that adequate and appropriate penalties were available to deter airlines from any temptation to disregard the conclusions reached or the requirement to seek prior approval for certain types of consultation.

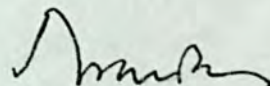
My officials first task at the meeting in January should be to find out if they can what relevant changes in US anti-trust legislation are likely to flow from the White House Task Force which has been studying US anti-trust laws, albeit in a domestic context largely concerned with promoting the international competitiveness of United States industry. But if they are to engage in a dialogue about how anti-competitive behaviour should be dealt with in future in UK/US aviation, I would like them to have the authority to float the ideas set out in the attached paper. In doing so however they would have to stress that there was at present no commitment on the part of Her Majesty's Government to implement such a scheme, although we would be very interested in exploring it further with the US authorities if they felt that it might form the basis of a secure bilateral arrangement in this area which could prevent the damage to Anglo/US relations which would certainly arise from a repetition of future cases similar to that generated by the collapse of Laker Airways. They would need to add that in the absence of agreed arrangements on which UK airlines could confidently rely it would be difficult to carry forward further the process of liberalizing North Atlantic air services, either in respect of capacity determination or in respect of airlines' freedom to set fares following their own commercial judgement and subject only to the disapproval of both aeronautical authorities.

I hope that colleagues will be content to allow an exploratory discussion to take place on this basis on the understanding that it would be done without commitment. In the light of US reactions I would propose to make a further report and to seek colleagues' agreement to former proposals for the future conduct of these negotiations.

I am sending a copy of this letter to our colleagues on MISC 112, to the Lord Chancellor, and to Sir Robert Armstrong.



NICHOLAS RIDLEY



ANNEX (outline draft)

COMPETITION ON NORTH ATLANTIC AIR SERVICES

1. The Contracting Parties, considering that agreements or concerted* practices which have as their object or effect the prevention, restricted or distortion of competition are contrary to their principles have decided that where such agreements or practices relate to North Atlantic air services operated under this Agreement they shall be subject to the arrangements for the prevention of anti-competitive behaviour set out in this Annex.

2. The designated airlines' licences and permits will be amended to require compliance with the arrangements as set out in this Annex.

3. Airlines which wish to consult about arrangements to:

a. Directly or indirectly determine the levels of airline tariffs including the conditions attached to them;

b. Directly or indirectly determine the capacity to be operated on any route or routes or the allocation of capacity shares to particular airlines;

c. Directly or indirectly pool or share the cost of operating any route and/or the revenue arising from such operations;

or to enter into any agreements arising out of such consultations must follow the agreed procedures (to be attached), which provide for the aeronautical authorities of both countries to be closely informed about the arrangements for airline consultation and any conclusions reached so that they can satisfy themselves

*This draft deals only with concerted practices; further consideration needs to be given to the control of anti-competitive behaviour by a single airline, or by more than one airline acting in the same way without prior concertation.

that any agreements which may be proposed as a result are consistent with the policies of the Contracting Parties for the encouragement of effective competition in operation of North Atlantic air services, and so that they can take any necessary steps to approve or disapprove any practices flowing from such agreements.

4. Airlines are free to engage in consultations on other matters, and to enter into agreements relating to them, but they may be required to desist from any practices which on enquiry are found to prevent, restrict or distort competition, unless such practices are justified on technical, safety or operational grounds, while allowing consumers a fair share of the resulting benefit.

AUTHORITIES

5. The authorities for the purposes of this competition regime will be the CAA (UK), the DOT (US) and a commission made up of one member drawn from the UK authority, one member from the US authority and a third member acceptable to both sides.

COMPLAINTS

6. Governments, airlines or individuals may lodge complaints about suspected anti-competitive behaviour either with the CAA or with the DOT.

INVESTIGATIONS

7. The authority of the Contracting Party which designated the airline which is the subject of complaint will decide whether or not an investigation should be undertaken. Where airlines of both countries are the subject of the same complaint an investigation will take place unless both authorities decide otherwise.

8. Where the complaint is against airline(s) of only one of the Parties, its authority will conduct the investigation.

9. Where the complaint is against airlines of both Parties, the investigation may be carried out by the authority of one of the Parties only, if the authority of the other agrees. Otherwise it will be carried out by the commission, assisted by the authorities of both Parties.

10. Terms of reference including the timescale will be clearly defined at the outset of any investigation. The authority carrying out the investigation will determine its own terms of reference after consultation with the authorities of the other party. The commission will consult both aeronautical authorities. Any extension or redirection of the terms of reference will be determined in the same way and may require a reappraisal of who should conduct it.

RESULT OF INVESTIGATIONS

11. The authority conducting the investigation, or the commission, will make a finding as to whether the practice(s) complained of is contrary to the principles regarding fair competition set out in this Annex. If the practice(s) complained of is found to be contrary to those principles the authority concerned, or the commission, will also propose what remedial action should be taken. In urgent cases the authority or commission may seek an undertaking from the airline(s) concerned or propose interim action on the basis of a provisional finding.

12. In the event of a Party considering that either authority has failed to act, or has acted inadequately or improperly, it may seek consultations, and if it is not satisfied with the outcome of those consultations it may ask the commission to institute or take over the investigation.

13. The authority (or commission) conducting an investigation shall communicate a proposed statement of its findings and any remedial action to all directly interested parties and to the other authority (or to both authorities). If an undertaking is offered which in the opinion of the authority or the commission

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constitutes satisfactory remedial action, they may communicate this with or without a proposed statement of finding. The parties and authorities shall have [28] days in which to make any representations in response to such communications.

14. Subject to any intervention under paragraph 12. the body carrying out the investigation shall then issue a final finding together with a statement of any remedial action it considers necessary, taking account of any undertakings which may have been given or offered, which should also be recorded.

15. The findings would be implemented by measures which may comprise legally binding undertakings given by the airline(s) concerned to, or orders made by, the authority of the country which designated the airline(s).

OFFENCES AND PENALTIES

16. Both countries will make it an offence:

a. to fail to disclose consultations or agreements covered by paragraph 3. above;

b. to fail to comply with an undertaking given under paragraphs 11. or 15., or an order made under paragraph 15.

17. Jurisdiction over such offences will be exercised exclusively by the country of the authority to which the undertaking was given or which made the order. Exclusive jurisdiction over an offence under paragraph 16(a) above would lay with the Party which designated the airline.

18. There will have to be adequate and appropriate penalties of broadly equivalent effect in both countries; their scale and nature will have to be discussed and agreed taking account of the laws and practices of both Parties.

CONSULTATIONS

19. Either government may request consultations under Article 16 as to the operation of this regime. Such consultations shall not be requested for the purposes of intervening in or seeking to revise individual investigations or decisions of the authorities, except to the extent that provision is made for such consultations in this Annex.

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

N/S Martin
stage

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

13 DEC 1985

Prima Dister

Dear John

**LAKER CLASS ACTION SETTLEMENT:
CLAIMS BY GOVERNMENT DEPARTMENTS**

As you may know, an American court has recently given provisional approval to an out of court settlement negotiated between British Airways, Pan Am and TWA as defendants, and lawyers representing a class of transatlantic travellers who claim that, as a result of an alleged conspiracy to bring about the collapse of Laker Airways, they have had to pay higher fares on flights between the UK and the USA than would otherwise have been the case. The provisional settlement implies no admission of liability on the part of the defendants under US law. There has been no question of any liability under UK law.

I enclose a copy of a recent advertisement, inviting claims under the settlement. Briefly the settlement provides that any claimant who can provide evidence of flying on the routes in question on the defendants' flights between 1 March 1982 and 31 March 1984 will be entitled to a coupon or coupons for each single journey which may be used to offset the cost of further transatlantic flights during the next five years. Claims have to be submitted by 16 February. The settlement provides for a potential fund of \$30m, which is the total face value of the coupons. The value of each coupon will depend on the number of valid claims.

Government departments are likely to form a substantial category of claimant. It is impossible to estimate what the potential claims might amount to because the value of each coupon will not be known until the period for claim is close, and it would require a good deal of work by departments to work out how many valid claims they could make. Preliminary enquiries suggest that the FCO might have some 6000-8000 claims, the DTI might have about 600, and the DOE and DTp taken together have about 70. The MOD would no doubt be another large claimant, but I understand that they have not been able to give my officials a quick estimate

of the scale of their claims. The total potential claims by all passengers flying by the three airlines over the 25 month period, of course, runs into many millions.

My purpose in writing to you however is to ask that the Treasury, and with your endorsement, all other departments, should forego their claims. It has been HMG's long standing policy that international civil aviation, which is the subject of bilateral agreements between Governments, should not be subject to the domestic competition of laws of the signatories to those agreements. The agreements themselves provide the means of regulating competition. The US Government, however, has argued that, notwithstanding our agreement with them on civil aviation (the Bermuda 2 agreement), their domestic competition laws should apply, and the case against the three airlines for which this out of court settlement is proposed was brought under those laws. Leon Brittan gave on 11 December a written Parliamentary Answer, reaffirming the Government's intention to maintain its long standing policy, as a prelude to negotiations with the Americans about mutually acceptable arrangements for civil aviation. A copy of the answer is enclosed.

It would in my view undermine the credibility of HMG's policy if Government departments were to take advantage of this settlement by lodging claims for compensation arising from a case which, in our view, should never have been brought. I should therefore be grateful for your assistance in ensuring that no such claims for travel on official business are made.

I am copying this letter and enclosures to the Prime Minister and Cabinet colleagues.

Tomson
Nicholas

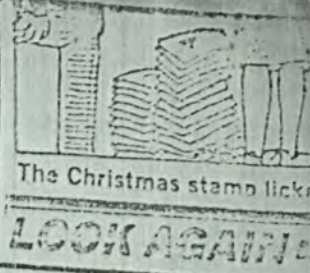
NICHOLAS RIDLEY

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it down to an increased
education of women about skin
care, "plus the fact there is quite
a bit of marketing hype. And it's
a huge market, the 20 to 25-
year-olds. They have the money
and they like anything that's
expensive. And of course it's
not just one product, in that

as soon as they start working,
and private health insurance
too - both, you would have
thought, very middle-aged con-
cerns. "But they usually leave it
much too late," said one
financial expert gloomily, "until
they're about 30."
Older people have always
been obsessed with staying

Alexandra Campbell, editor
of the magazine, Soap, Per-
fumery and Cosmetics, doesn't
agree. The first youth-conscious
generation is in its thirties now.
I don't think they like it much."
It's back to the chicken and
the egg, I suppose, and which
came first, the problem or the
cure. Nobody knows. But the
eggs are golden, that's for sure.



Sunday Times 24.11.85

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

IN RE NORTH ATLANTIC AIR TRAVEL
ANTITRUST LITIGATION

THIS DOCUMENT RELATES TO:
ALL CASES

LEAD CIVIL ACTION
No. 84-1013

ATTENTION

Summary Notice of Class Action and Proposed Settlement

If you flew between the United States and the United Kingdom
on Pan Am, TWA or British Airways between March 1, 1982
and March 31, 1984, you may be entitled to share in a fund with
a potential value of \$30 million.

Whether you are a company or an individual, if you purchased
an airline ticket after February 26, 1982 for scheduled subsonic air
travel between the continental United States and the United Kingdom
during the period March 1, 1982 and March 31, 1984, on Pan Am, TWA,
or British Airways, you may be entitled to share in a distribution of a
potential fund of \$30 million in coupons usable to reduce your cost of
future U.S.-U.K. air travel.

The coupons would be distributed as part of the proposed
settlement of this antitrust class action lawsuit, In re North Atlantic
Air Travel Antitrust Litigation, Civ. No. 84-1013, currently pending
in the United States District Court for the District of Columbia.

If you wish to share in this settlement and receive your coupon(s),
or to object to this settlement, or to exclude yourself from this lawsuit,
you must follow the procedures set forth in the full Notice of Class

Action and Proposed Settlement. All claims for coupons must be
submitted on the Claim Form that accompanies that Notice. To
obtain a copy of the full Notice of Class Action and Proposed Settle-
ment, together with the Claim Form, you must promptly:

Either call 718 236 2337 in the U.S. or 0272 277008 in the U.K.

Or complete the form below and send it, or simply send your
name and address, to the Settlement Administrator at the appropriate
address below:

U.S.A.:
The Settlement Administrator
P.O. Box 1002
Bowling Green Station
New York NY 10274.

U.K.:
The Settlement Administrator
P.O. Box 314
Bristol BS99 7AW.

PLEASE DO NOT CONTACT PAN AM,
TWA OR BRITISH AIRWAYS

If you wish to share in the settlement and receive coupon(s),
you must complete the Claim Form and return it postmarked no later
than February 16, 1986. Failure to submit the Claim Form or to exercise
any of the other options described in the Notice of Class Action and
Proposed Settlement by February 16, 1986 will result in the loss of any
right to share in this settlement or to recover on the claims asserted
in this lawsuit.

Please forward Notice of Class Action and Proposed Settlement to:

NAME _____

ADDRESS _____

CITY _____

STATE/COUNTY _____

COUNTRY _____

ZIP/POST CODE _____

(PLEASE USE BLOCK CAPITALS)

Civil Aviation (Anti-trust Laws)

Mr. Hirst asked the Secretary of State for Trade and Industry in the light of the recently announced provisional

321

settlement of the class action relating to the collapse of Laker Airways, what is the Government's policy towards the application of the United States anti-trust laws to civil aviation.

Mr. Brittan: The Government have consistently maintained the view that in so far as the activities of airlines are authorised and regulated in accordance with an air services agreement, the domestic laws of a contracting party may not be used to constrain or regulate those activities, unless that is provided for expressly, or is necessary in order to implement the agreement, or the laws can be applied in a manner which is compatible with the agreement. Regulation under the agreement by the contracting parties jointly of matters such as market access, capacity and tariffs necessarily displaces the unilateral application of the domestic competition laws of each party which implements the national economic philosophy of each country and are not designed to deal with the special characteristics and needs of international civil aviation.

In particular, the Government's view is that the unilateral application of United States anti-trust law to air services operated under the United Kingdom-United States air services agreement (Bermuda 2) is not only incompatible with the United Kingdom's rights under the agreement, but is damaging to the trading interests of the United Kingdom. In 1983 the then Secretary of State for Trade and Industry exercised his powers under the Protection of Trading Interests Act 1980 to prohibit compliance by persons carrying on business in the United Kingdom with requirements for the enforcement of United States anti-trust laws in relation to activities of United Kingdom airlines and concerning the operation of air services under Bermuda 2.

Our policy is unchanged, and I therefore intend to exercise powers under that Act to whatever extent is necessary if proceedings under the anti-trust laws were to be begun in the future in United States courts against any United Kingdom airline in relation to air services operated by it under Bermuda 2, and would not envisage consenting to requests to comply with discovery orders made by United States courts in such cases.

While maintaining this position, the Government's longer-term objective is to reach mutually acceptable arrangements as appropriate with foreign Governments to deal with anti competitive behaviour by airlines. As a first step we have indicated to the United States Government that we are ready to discuss these issues with them.

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SL2ACZ



cc: B. Griffiths.

10 DOWNING STREET

6 December 1985

From the Private Secretary

Dear Richard,

ECONOMIC REGULATION OF AIRPORTS

The Prime Minister has seen your letter to me of 2 December. She is glad to know that the Department of Transport will be working to ensure that the British Airports Authority has every opportunity to become more efficient and profitable, within the constraints needed to prevent abuse of monopoly power.

I am copying this letter to the Private Secretaries to Members of E(A) and to Michael Stark.

Yours ever,
David.

DAVID NORGROVE

Richard Allan, Esq.,
Department of Transport

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cc BGT



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NBM.

PRIME MINISTER

APPLICATION OF US ANTI-TRUST LAW TO INTERNATIONAL CIVIL
AVIATION

Following my minute of 28 November, I have talked over the
issues with Nick Ridley.

Having discussed the implications, I have no objection to a
statement on the lines that Nick Ridley suggested in his
minute of 22 November. But I believe that it would be right
for me to make any statement myself. The Protection of
Trading Interests Act is my responsibility; and, as
Geoffrey Howe has said, it would be preferable in all the
circumstances for me to deliver any statement on it.

My officials will be in touch with Nick Ridley's and
Geoffrey Howe's, so that the statement can be presented and
timed in a way that will secure our objectives while
minimising the risk of adverse reaction in Washington.

I am copying this minute to other members of MISC 112, and to
Sir Robert Armstrong.

L.B.

L B

4 December 1985

Department of Trade & Industry

DW2AEU

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AEROSPACE: Future of BA: Pt 4

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

2 December 1985

Prime Minister 2
Evidence of your concern will
have done some good. Agree to
note now -

Dear David,

DLW 4/12

ECONOMIC REGULATION OF AIRPORTS

Your letter of 19 November recorded the Prime Minister's concern that the privatised British Airports Authority (BAA) should have the opportunity to become more enterprising and profitable than might be expected of a public utility. My Secretary of State shares this concern and is seeking to ensure that the arrangements for economic regulation encourage efficiency and profitability and are the minimum consistent with the need to prevent abuse of monopoly power.

The obligation on the regulator to secure "reasonable profits" was never meant to limit BAA's ability to make profits, rather to safeguard it: in order to make things totally clear, we now intend to avoid the term "reasonable".

However, there is a problem with our international obligations, principally the UK/US Air Services Agreement (Bermuda II) and the UK/US Memorandum of Understanding, signed in April 1983, which settled a legal action brought by US airlines against the BAA in respect of airport charges. These obligations appear to require a continuation of the BAA's present practice whereby, subject to achieving a reasonable rate of return on assets, they apply all of the profits of airport commercial activities (duty-free shops, restaurants, car parks etc) to reduce the traffic charges levied on airlines and their passengers.

We expect soon to consult the Law Officers on the extent to which our international obligations do in fact require this. My Secretary of State will keep the Prime Minister informed of developments. However, even if the "one till" doctrine (as it is called) has to be maintained, we still propose to give the BAA management incentives for efficiency through a price regulation formula; and their proven ability to earn good profits (even on the current cost accounting convention) should be enhanced

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by the opportunities they will have for developing commercial activities which are not primarily airport-related and which will be entirely excluded from regulation.

I am copying this to Private Secretaries to members of E(A) and to Michael Stark.

Yours,

Richard.

R A ALLAN
Private Secretary

CONFIDENTIAL

2f

AEROSPACE

B.A. PTY





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PRIME MINISTER

HCSPN at this stage
B/F / CF (i) has Ridley made his statement
(ii) will Treasury be commenting
RHS

APPLICATION OF US ANTI-TRUST LAW TO INTERNATIONAL CIVIL AVIATION

Nick Ridley has sent me a copy of his minute to you of 22 November.

2 I understand that current plans for BA's privatisation include flotation in the United States as well as in this country. In the light of our experience with British Telecom I wonder whether this is really necessary. In any event if the proposed flotation in the United States is likely to make BA an easy target for American contingency fee lawyers pursuing anti-trust actions on behalf of airlines or passengers on a speculative basis and being remunerated out of any proceeds, then I believe that it would be worth reconsidering the plans for a US flotation. If we decide against a US flotation, then the case for a statement on the lines Nick Ridley suggests would require reconsideration, and would obviously be much weaker.

3 I am copying this minute to other members of Misc 112, and to Sir Robert Armstrong.

L. B.

L B

28 November 1985

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DW2ADG

CC/BG



Treasury Chambers, Parliament Street, SW1P 3AG

Richard Allan Esq
Private Secretary to
Secretary of State for Transport
2 Marsham Street
LONDON
SW1P 3EB

NBPM.

26 November 1985

Dear Richard

APPLICATION OF US ANTI-TRUST LAW TO US CIVIL AVIATION

This is to confirm that, as I told you on the telephone, the Financial Secretary and the Chancellor had no objection to your Secretary of State going ahead with the statement outlined in his minute of 22 November to the Prime Minister.

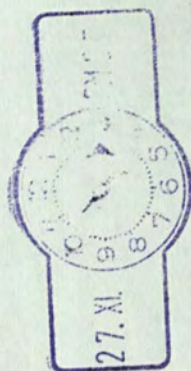
I am copying this letter to the Private Secretaries, to members of MISC 112 and to Michael Stark (Cabinet Office).

Yours ever

VIVIEN LIFE

Aerospace: Future of BA

P4



CONFIDENTIAL



DG-2 AOK
cc B. Griffiths
✓

10 DOWNING STREET

From the Private Secretary

26 November 1985

Dear Richard,

APPLICATION OF US ANTI-TRUST LAW TO INTERNATIONAL CIVIL
AVIATION

The Prime Minister has seen and noted the draft Written Answer attached to your Secretary of State's minute of 22 November. The Prime Minister also saw the Foreign Secretary's minute of 25 November.

I am copying this letter to the Private Secretaries to members of MISC 112 and to Michael Stark (Cabinet Office).

*Yours ever,
David*

David Norgrove

Richard Allan, Esq.,
Department of Transport.

CONFIDENTIAL

DA

JF BG

PM/85/98PRIME MINISTERApplication of US Anti Trust Law to International Civil Aviation

1. I have seen Nick Ridley's minute of 22 ^{with DRN} November to which he attached a draft answer to an inspired parliamentary question on our policy on the unilateral application of the US Government's domestic competition laws to civil aviation.

2. I can accept the text that Nick Ridley proposes but I am concerned that we should minimise the risk of provoking an adverse reaction in Washington. Ideally I should prefer a statement to issue just before the Christmas recess in order to avoid the risk of stirring up an adverse reaction in the White House Anti-Trust Task Force due to report in early or mid December. I understand that Nick wishes to have the statement issued very quickly. All the more important that we should explain in Washington both to the White House and to the State Department, what we are doing. I therefore propose to instruct HM Ambassador in Washington to see the appropriate people on the day this question is answered. We shall also arrange to brief the US Embassy in London.

/3. Given

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3. Given the responsibility of Leon Brittan for the PTI Act, I believe that in the circumstances it would be preferable for him to deliver the Answer.

4. I am copying this minute to the recipients of Nicholas Ridley's minute.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

25 November 1985

CONFIDENTIAL





CENO

PRIME MINISTER

APPLICATION OF US ANTI-TRUST LAW TO INTERNATIONAL CIVIL AVIATION

The paper I circulated to MISC 112 under cover of my letter to the Foreign Secretary of 18 September outlined the general approach I intended to follow in resuming discussions with the US Government on civil aviation arrangements. In the light of Michael Spicer's meeting with Mrs Dole last month, I have been considering further what means we might use to persuade the US Government of the strength of our concern about the unilateral application of anti-trust laws to civil aviation. There is a clear risk that further law suits, however mischievously inspired, could seriously damage any of our North Atlantic operators, because of the diversion of management effort to which such suits give rise, and the fact that costs cannot be recovered even if the claims are dismissed.

The cost of BA and BCal of settling the Laker liquidator's action out of court has been substantial. It appears that discussions between airlines about tariffs, capacity and so on, which we would regard as a perfectly proper way of facilitating the smooth operation of the Bermuda 2 agreement can give rise to anti-trust claims under American law. The uncertainty which the Americans' unilateral application of anti-trust law to civil aviation has created could at any time be extended by their courts to other aspects of co-operation between airlines, such as interlining or even the activities of the Heathrow scheduling committee for example. It is commonly believed that the Government's wish to privatise BA at an early opportunity makes them an easy target for American contingency fee lawyers.

With the end of the Laker-inspired litigation in sight, I intend to resume discussion with the Americans about the application of competition rules to civil aviation on which we can both agree, and shall be raising the subject with Mrs Dole about the end of the year. If we are to succeed, the Americans will need to be convinced that this is indeed a serious problem to which a solution must be found, and that we are prepared to defend our interests vigorously if necessary.

One method of registering our concern would be to remind the Americans of the powers we have taken under the Protection of Trading Interests Act and the use we have made of them to frustrate American legal processes in anti-trust cases by blocking discovery of documents and evidence. My officials



have been considering with those of the DTI, FCO and Law Officers' Department whether the existing order and direction under S1 would provide the necessary authority to block discovery in any further civil aviation anti-trust suit. The position is not entirely clear, but in any event my officials' advice is that a firm public statement of HMG's policy and intentions in this area would meet our objectives as effectively as a fresh order or direction made to anticipate the consequences of possible further anti-trust suits.

The form which the statement should take needs to ensure that our intentions are placed firmly on the public record, without appearing unnecessarily provocative to the Americans. There is also a judgment to be made about whether the statement should be made in advance of the negotiations or during the course of them. I believe that the Americans will never treat this as a serious problem which has to be solved, unless we take steps to confront them with it as early as possible, and I therefore think that the statement should be made before I see Mrs Dole. The presentation of this to the US Government will need careful handling and my officials are in touch with the FCO about how this should best be done and about the timing.

As to the form of the statement a written Parliamentary answer would get the position on to the public record, and could quite naturally be made now in view of the publicity which the American courts' provisional approval for the Laker class action has attracted. A draft answer is attached.

Since this is a matter of international civil aviation policy, I should be happy to make the statement if colleagues agree. But the PTI Act is the responsibility of the Secretary of State for Trade and Industry, and Leon Brittan may wish to comment on this point. Unless I hear by 10 am Tuesday 26 November I shall assume that colleagues are content.

I am copying this minute and enclosure to other members of MISC 112 - Nigel Lawson, Geoffrey Howe, Leon Brittan, Patrick Mayhew (in Michael Havers' absence) and John Moore - and to Sir Robert Armstrong.

NICHOLAS RIDLEY

22 November 1985

CONFIDENTIAL

QUESTION

To ask the Secretary of State for Transport, in the light of the recently announced provisional settlement of the class action relating to the collapse of Laker Airways, what is HMG's policy towards the unilateral application of the US Government's domestic competition laws to civil aviation matters?

DRAFT ANSWER

HMG has consistently maintained the view that in so far as the activities of airlines are authorised and regulated in accordance with an air services agreement, the domestic laws of a Contracting Party may not be used to constrain or regulate those activities unless this is provided for expressly or is necessary in order to implement the agreement, or the laws can be applied in a manner which is compatible with the agreement. Regulation under the agreement by the Contracting Parties jointly of matters such as market access, capacity and tariffs necessarily displaces the unilateral application of the domestic competition laws of each Party which implement the national economic philosophy of each country and are not designed to deal with the special characteristics and needs of international civil aviation.

In particular it is the view of HMG that the unilateral application of US anti-trust law to air services operated under the UK/US Air Services Agreement ('Bermuda 2') is not only incompatible with the United Kingdom's rights under the Agreement but is damaging to the trading interests of the United Kingdom. In 1983 the then Secretary of State for Trade and Industry exercised his powers under the Protection of Trading Interests Act 1980 so as to prohibit compliance by persons carrying on business in the United Kingdom with requirements for the enforcement of US anti-trust laws in relation to activities of UK airlines and concerning the operation of air services under Bermuda 2.

HMG intend to maintain this position. My Rt Hon and Learned Friend the Secretary of State for Trade and Industry therefore intends to exercise his powers under the Act to whatever extent is necessary if proceedings under the anti-trust laws are begun in the future in US Courts against any UK airline in relation to air services operated by it under Bermuda 2, and would not envisage consenting to requests to comply with discovery orders made by US courts in such cases.

While maintaining this position HMG's longer term objective is to reach mutually acceptable arrangements as appropriate with foreign governments to deal with anti-competitive behaviour by airlines. As a first step we have indicated to the US Government that we are ready to discuss these issues with them.

Aerospace: Future of BA A4



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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Prime Minister

NBRM

19 November 1985

ECONOMIC REGULATION OF AIRPORTS

I was grateful for a copy of Nicholas Ridley's minute to you of 4 November. I am grateful for the further thought that he has given to these issues and am reassured by the advice he has received from his merchant bankers about the proposed arrangements for dealing with the overlap of jurisdictions of the CAA and DGFT.

I am now therefore content with what is proposed.

I am copying this to Nicholas, to other members of the E(A) and to Sir Robert Armstrong.

A.Y.

COPIED FROM THE
ORIGINAL DOCUMENT



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

18 November 1985

ECONOMIC REGULATION OF AIRPORTS

The Prime Minister has noted the institutional arrangements for the economic regulation of airports set out in your Secretary of State's minute of 4 November.

5/9
The Prime Minister has also noted the obligations indicated in the shorthand "reasonable profits". These will make it difficult for the BAA to break out of the mould of a safe but unexciting utility. The Prime Minister has asked whether, with the novel creation of privatised international airports, "reasonable profits" has to be interpreted in the narrow context of a public sector utility. Would it be possible to leave greater scope for the BAA to become more enterprising and profitable without at the same time opening up opportunities for monopolistic behaviour?

I am copying this letter to Private Secretaries to members of E(A) and to Michael Stark.

(DAVID NORGROVE)

Richard Allan, Esq.,
Department of Transport.

CONFIDENTIAL

W

Prime Minister 1

Agree to write as proposed? (There is no need to

batter you with an extremely tedious
correspondence.)

CONFIDENTIAL

PRIME MINISTER

8 November 1985

DLW

11/11

ECONOMIC REGULATION OF AIRPORTS

Yes - in accordance with your own comments
Wednesday 11/11
A. James

Following consultations, principally with the Treasury and the DTI, Nicholas Ridley is seeking endorsement for the arrangements covering the economic regulation of airports after privatisation, notably of the British Airports Authority (BAA). This bears on the forthcoming Airports Bill.

Satisfactory, well-tryed regulatory arrangements already exist for airport safety, security and protection of the environment. This leaves the regulatory régime covering the economic aspects of airports, ie air traffic charges, the allocation of limited airport capacity to competing airlines and the provision, usually by franchise, of passenger services such as duty free and retail shopping, catering, and car parking.

At first sight, such regulation divides neatly into the air traffic side of airports where the CAA has the requisite experience and expertise, and the passenger handling side of airports which is more natural territory for the ^{Director General of Fair Trading} DGFT and general competition law. The snag is the Government's international obligations. These dictate the principle of non-discrimination against foreign airlines wanting access to UK international airports; and the obligation to ensure that income from commercial activities is taken into account in setting traffic charges, and that the traffic charges are

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- 2 -

cost-related and allow only "reasonable profits". This means that in any event, the CAA needs to exercise judgement on the commercial relationships between an airport and third parties across the range of normal airport activities.

Essentially, two concerns have surfaced during recent interdepartmental consultations; firstly, that confusion over the dual roles of the CAA and the DGFT will create muddling ambiguities and cast a shadow of uncertainty over the BAA prospectus; secondly, that the CAA will be placed in the role of overall profit regulator for privatised airports, and, moreover, a regulator required to limit such profitability to a "reasonable" level.

The arrangements resulting from the recent consultations should satisfactorily allay the first of these concerns. The CAA will be the prime regulator of all core airport activities. The continuous and detailed regulation of air traffic charges will be avoided. In practice, maximum air traffic charges at a given airport will be set for 5-year intervals, and during each such period will be adjusted by a formula akin to RPI-X. Before the quinquennial resetting of traffic charges, the MMC would undertake a comprehensive review of the airport company's affairs, including its cost structure and efficiency, and would advise the CAA on its findings.

The principle of "reasonable profit", as framed in our international obligations, is both difficult and important.

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It is bound to have a significant bearing on the attractiveness of BAA plc to investors - and hence on the Government's proceeds. At least the 5-year review mechanism for air traffic charges will avoid continuous detailed regulation of airport profits, and will still leave some incentive for privatised airports to be enterprising and strive for cost savings. Nonetheless, with all but BAA's peripheral operations (eg hotels, conference centres, hypermarkets) broadly limited to "reasonable profits", it will be difficult for BAA to break out of the mould of a safe but unexciting utility.

We would recommend that you should:

I would say "note": this is not really something for you to bother with.

- Note*
- [Endorse] Nicholas Ridley's proposed institutional arrangements for the economic regulation of airports. (Treasury and DTI will agree.)

- At the same time, urge him to explore the scope for enhancing the "reasonable profits" aspect of the BAA prospectus. Given the novel creation of privatised international airports, is it possible to fulfil the spirit of our international obligations whilst retaining a strong profit motive for enterprise and efficiency? Must "reasonable profits" be interpreted in the narrow context of a public sector utility? (Treasury will readily agree.)

And without monopolistic behaviour.

JW
JOHN WYBREW



cc BGC

Awaiting Pmg
Unit

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1

7 November 1985

Nicholas

ECONOMIC REGULATION OF AIRPORTS

I have seen a copy of your minute of 4 November to the Prime Minister seeking agreement to your proposals for the economic regulation of airports.

My concern over the original proposals for the CAA to regulate trading practices as well as charges in relation to core aeronautical activities was that their apparent vagueness would deter potential investors. I was therefore pleased to see that you are now proposing to be rather more specific and to make clear that the CAA's powers will be directed at unreasonable discrimination against any class of airport user. Provided that a satisfactory definition of the powers along those lines can be worked out for the Airports Bill, as I am sure it can, I am happy to withdraw my objection to the CAA regulating trading practices.

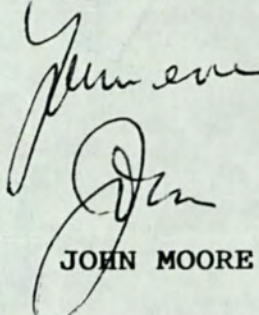
As to "reasonable profitability", I am glad to see that you accept that our objectives are the same so that the issue is a matter of wording rather than of principle. It is, however, a very important matter of wording which could have major implications for the proceeds from the sale of the BAA. So whilst I am content for the moment to leave it to officials to discuss the wording of the CAA's general duties, I will wish to be satisfied in due course that the outcome removes all risk of the BAA being seen as subject to profit regulation. I am inclined to think that it would be best if there were no mention of profitability in the CAA's general duties.

I understand that it has not yet been established whether the proposed regulatory regime takes proper account of our international obligations, notably as to the subsidisation of aeronautical charges by profits on commercial activities. This

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too could have major implications for proceeds so I hope that before long you will be able to bring forward proposals to cover the issue.

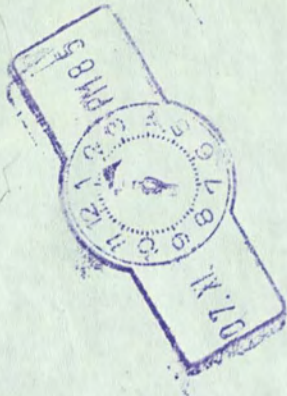
I am sending copies of this letter to the Prime Minister, members of E(A) and to Sir Robert Armstrong.


JOHN MOORE

CONFIDENTIAL

AEROSPACE RT4

FUNDS





CF To await
JW comments.
DBW
ccBG

Prime Minister

ECONOMIC REGULATION OF AIRPORTS

In my absence abroad, Lynda Chalker circulated, on 4 October, a minute to colleagues explaining our proposals for the economic regulation of airports and setting out the outstanding points of principle that needed to be resolved. You will have seen the replies that I have received from George Younger, John Moore, and Michael Howard, the colleagues with the most direct interest in the proposed regulatory regime. I think that the outstanding issues can now be resolved satisfactorily and the purpose of this minute is to seek your agreement to the way in which I propose to deal with the points that colleagues have raised.

No - I did
not bother
you with it
while there
was much
uncertainty.

I am happy to accept all the refinements to my proposals that Michael Howard suggests in his letter and shall see that these are reflected in the clauses drafted by Parliamentary Counsel. His letter also replies, in part, to the suggestion made by George Younger, that we should think again about a statutory separation of the respective areas of jurisdiction of the CAA and DGFT. I was initially attracted by the idea of excluding the DGFT altogether from any involvement in core airport activities, but after much consideration, concluded that statutory separation would give rise to serious practical difficulties. The nub of the problem, as Michael Howard's letter explains, is our international obligation to ensure that income from commercial activities is taken into account in setting traffic charges. While it may be relatively straightforward to differentiate between the core and commercial businesses in terms of

AEROSPACE : future of BA : Pt 4





activity, the cross-subsidy requirement blurs the financial picture. This means that however tightly and carefully the core of an airport's business might be defined, there would always be the risk of a grey area which would either span or fall between the duties of the two regulators.

So, in practice, some degree of overlap is inevitable and I believe that the arrangements that I have agreed with Michael Howard are the ones most likely to lead to a clear, workable system. First, the voluntary agreement route is already precedented in the aviation field by the agreement reached by the CAA and DGFT on competition matters affecting airlines; this sets out respective roles and specifies where one agency takes precedence over the other. Second, the reserve powers I am proposing, to make regulations governing the activities of the two bodies (if in the final analysis they cannot agree), must go still further to reassuring potential investors that double regulation will be avoided.

Our merchant bank advisers have assured us that, provided these arrangements are in place by the time the prospectus is issued, the effects on investor confidence will be minimal.

I hope that these assurances will go a long way to meeting John Moore's concern about the effect of our regulatory proposals on the price investors will be prepared to pay for the BAA. John has proposed trying to avoid overlap between the CAA and DGFT in a way opposite to that suggested by George Younger. He would limit the role of the CAA strictly to regulation of aeronautical charges. Lynda Chalker's minute explained why I felt that the CAA's role should be extended to cover all activities, not just charges, relating to core airport activities. I have already gone into the problems of the dividing line between an airport's core and commercial activities; they become even more acute when one tries to draw a line between aeronautical charges and trading activities within the core of the airport's business. Virtually every core trading activity at an airport is likely



to have some impact on aeronautical charges. While I fully support John Moore's wish to avoid excessive regulation - indeed it is my express purpose to make the regulatory regime no more burdensome than is necessary - I also agree with Michael Howard's view that normal competition legislation was not designed to cope with "natural" monopolies in the private sector.

So, in the case of airports, it is my firm belief that the CAA should be the prime regulators of all core activities, in view of their expertise in aviation matters affecting both airports and airlines. This does not mean that the CAA will have the same wide powers as the DGFT.

Under the terms of the Bill their role will be framed specifically to the task of ensuring that airports cannot adopt a trading practice which discriminates against a class of user. Rather than protecting the powerful airlines - as John Moore fears - this will serve to protect the smaller airlines so that they are able to compete on a fair basis.

For example, the CAA might decide that a small airline should be able to handle its own baggage and not rely on a large airline's handling service, or that smaller airlines were being unfairly treated by being given the most inconvenient boarding gates and parking stands. The CAA's expertise places it in a good position to both detect and remedy discriminating practices of this kind, and our merchant bank advisers agree. I hope therefore that John will understand why I cannot accept this one of his two main concerns.

His other point, about the reference in the CAA's duties to promoting the "reasonable profitability" of airports is, I think, a matter of wording and not a difference of principle between us. I fully endorse the need to avoid profit regulation. The phrase "reasonable profitability" was intended to be descriptive rather than definitive: the thought behind it was that the regulatory regime must allow for increases in both profits and profit margins,



otherwise the CAA could conceivably set levels of aeronautical charges which allowed airports only to break even. Given that our objectives are the same, there should not be a problem in ensuring that the Bill contains a form of words that reflects our shared view.

I trust that you and colleagues will be content for me to proceed on the basis that I have outlined.

I am copying this to members of E(A) and to Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a stylized 'N' and 'R' followed by a flourish.

NICHOLAS RIDLEY

4 November 1985



cc/56

From the Parliamentary Under Secretary of State
for Corporate and Consumer Affairs

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5662

GTN 215

(Switchboard) 215 7877

Michael Howard QC MP

B/f S/11

Mrs Lynda Chalker MP
Minister of State
Department of Transport
2 Marsham Street
LONDON
SW1

30 Oct October 1985*Dear Lynda***ECONOMIC REGULATION OF AIRPORTS***File with on.*

Our officials have discussed further the proposals outlined in your minute of 4 October to the Prime Minister. In the light of those discussions I can agree to your proposals, subject to the following points:

- a) That the CAA's powers and duties should be extended to require transparency in the accounts of an airport undertaking, not simply as between different airports, but also as between the different activities of an airport. I understand that you have agreed to this.
- b) That the CAA's general duty to further the reasonable interests of persons using airports for the purposes of air transport should be wide enough to cover those persons' interest in their capacity as users of all the services of an airport, and that it is to these criteria that the MMC will have regard in reporting on any matters referred to them by the CAA.
- c) That the MMC should be able, in a report under a quinquennial review, to make a public interest judgement in respect of any aspect of an airport's activities, including aeronautical charges; and that the CAA's discretion to modify a recommendation by the MMC as to the level of such charges should be subject to:



- i) its obligation to remedy or prevent any effects adverse to the public interest identified by the MMC;
- ii) tighter procedural disciplines, in the form of an obligation to give notice of the proposed modification, together with reasons for this, and to consider any representations or objections made within a designated timescale.

George Younger, in his letter of 21 October to Nicholas Ridley, queried the need for an overlap of responsibilities between the DGFT and the CAA. My view is that this is the most effective solution to the problem of regulating airports. Certainly, we should not impose additional regulation upon any industry if the normal competition legislation is adequate to deal with potential abuses of monopoly or anti-competitive practices. But the normal competition legislation was not designed to cope with "natural" monopolies in the private sector, and it is generally necessary to impose some more continuous and detailed regulatory mechanism. In the case of airports, the White Paper gave this role to the CAA. However, the dividing line between those activities which require special regulation and those which can be subject only to the normal competition legislation - never easy to draw - is even more difficult to set in the case of airports, because by international agreement the charges imposed for aeronautical services depend upon the level of profits made by the commercial services. It is necessary for the regulating authority to take a view on the appropriate balance between the contributions made to an airport undertaking's financing by the various activities.

It would be possible for the OFT and the MMC to look at these issues by means of a monopoly reference under the Fair Trading Act: but only if the reference covered the services of an airport as a whole. In the case of "designated" airports, that would involve an element of duplication with the quinquennial reviews which the MMC must in any case carry out on behalf of the CAA. It therefore seems most sensible to rely on the quinquennial review to look at the whole of these airports' activities. In these cases, the DGFT's powers under the Fair Trading Act and Competition Act remain as a "long stop" to deal with any problem which, in exceptional circumstances, the CAA might request the DGFT to look at (perhaps because the CAA considered that the complaint was more amenable to effective treatment under the competition legislation); or where a complainant is dissatisfied with action taken by the CAA. I regard some such "long-stop" as an important safeguard - though I hope it would not prove necessary to invoke it - against the possibility of "capture" of the CAA by the airports, especially in view of the CAA's commercial relationship with airports in the field of air navigation services.



In the case of non-designated airports within the regulatory framework, the CAA's powers will extend only to the core activities; and the competition legislation will be the only mechanism for examining an airport's activities as a whole. Some degree of overlap is therefore necessary in the case of the generality of regulated airports; and in the case of designated airports, whilst in practice it is not expected that the DGFT will wish to exercise his powers under normal cocompetition legislation, they remain as a backstop to deal with exceptional circumstances. On balance therefore, a degree of overlap seems inevitable.

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

*Yours ever
Michael*

MICHAEL HOWARD

Aerospace: Future of B.A. P.C. &





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley Esq MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1

29 October 1985

Nicholas Ridley

ECONOMIC REGULATION OF AIRPORTS

I have seen a copy of Lynda Chalker's minute of 4 October to the Prime Minister which describes your proposals for the economic regulation of airports after the privatisation of the BAA. I have two related reservations about the functions which you envisage for the CAA in these proposals.

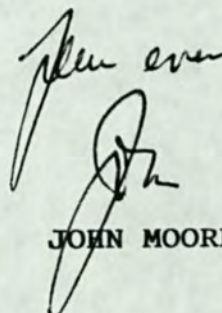
My first reservation is with the proposed definition of the CAA's new general duties. The suggestion in Lynda's minute is that the CAA, in carrying out its new duties, should have regard among other things to promoting the "reasonable profitability" of airports. This formulation could be taken to imply that the CAA not only has a role in the regulation of aeronautical charges but also in regulating airports' profits as a whole. Such a role for the CAA would be difficult to reconcile with the approach to economic regulation described in the airports' White Paper which implicitly rejected profit regulation for reasons which are already well understood. Profit regulation could only soften the incentive on management to cut costs and to improve the service to airport users and would mitigate many of the key benefits of privatisation. A regulatory role for the CAA which extends to profits would have fundamental and deleterious effects on investors' perceptions of the BAA as an investment opportunity. For these reasons I hope you will agree to drop the reference to promoting "reasonable profitability" from the CAA's general duties.

My second concern was mentioned by George Younger in his letter to you of 21 October. It is with the proposal that the CAA should be able to regulate trading practices. I cannot see any benefit or justification for extending the CAA's jurisdiction into this

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area when presumably the OFT and the normal competition laws should restrain airport companies from unfair trading practices not only in their commercial activities but also in their aeronautical activities. Your proposed arrangement seems unnecessary and I can only see disadvantages in it. First, I fear it risks giving too much of a weapon to the already powerful airlines. Secondly, the overlap between the regulatory functions of the OFT and the proposed new powers of the CAA means that certain core activities will be subject to two regulators enforcing different powers aimed at the same potential abuses. This can only lead to a significant element of imprecision and uncertainty about how the regulatory regime will operate. Investors and the BAA itself will not be faced with a clearly defined and stable framework. There will inevitably be ambiguities and potential investors will be unable to form a clear judgement about the extent to which core aeronautical activities will be regulated and by whom. This uncertainty can only feed through into more cautious forecasts of BAA's likely earnings potential and into the price which investors will be prepared to pay. My strong preference is to avoid overlap and duplication between the regulators by limiting the role of the CAA strictly to the regulation of aeronautical charges as we envisaged in the White Paper. I understand that Leon Brittan will shortly be commenting on Lynda's minute and I should be interested in his observations on this particular aspect of your proposals.

I am copying this minute to the Prime Minister and to other members of E(A).


JOHN MOORE

CONFIDENTIAL



Aerospace:
Future of B7A PE4

CONFIDENTIAL

cc BG



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

John R MacGregor Esq MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

NBR

25 October 1985

Dear John

BA PAY

Thank you for your letter of 14 October about BA's pay negotiations.

There is little I can add to my letters of 18 September and 7 October to Nigel Lawson and Kenneth Clarke respectively. BA have been made well aware of the points you make. Negotiations are currently centring on the restructuring aspects of the package. I am keeping closely in touch with developments and will let you know when anything significant occurs.

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

John

NBR

NICHOLAS RIDLEY

CONFIDENTIAL

AEROSPACE

WURKE OF RA

PT 4





NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

CNO

Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

21 October 1985

Dear Nicholas,

W
2/10/85

ECONOMIC REGULATION OF AIRPORTS

I have seen a copy of Lynda Chalker's minute of 4 October.

I understand the awkwardness about the potential overlap between the duties of the CAA and those of the DGFT, in relation to the regulation of airport core activities. I fear however that your proposed solution risks causing uncertainty among potential investors in relation to the BAA prospectus. The uncertainty will also worry airport management who will face the possibility of double investigations and the need to educate two separate agencies. I can also imagine that it might not be straightforward to secure agreement between the Secretaries of State for Transport and for Trade and Industry as to the content of any Regulations that may prove necessary at a later stage, given the rather different perspectives from which the two Ministers will be looking at the problem.

I would therefore see merit in sorting the issue out now, on a once for all basis. The main need is for greater certainty, and I suppose this could be achieved simply by giving OFT and CAA a strict timetable within which to reach agreement, and then insisting that the agreement stick. But I cannot see that anything would be lost by going further and excluding the DGFT from the area of core activities altogether. I think on balance the latter option deserves further thought.

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

Yours well,

George

AEROSPACE: Future of BA: PE 4

HERALD AND BERRY HOUSE
100 BROADWAY
LONDON E1C 1AA



Mr. Ian Hinchey
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

21 October 1985

[Faint handwritten text, possibly a name]

ECONOMIC REGULATION OF AIRWAYS

I have seen a copy of your letter of 4 October. I understand the awareness about the duties of the AA and the regulation of air traffic and your proposed solution takes into account the need to regulate the industry without imposing a burden on the industry. I would like to see a copy of your proposed solution and to discuss it with you. I would like to see a copy of your proposed solution and to discuss it with you. I would like to see a copy of your proposed solution and to discuss it with you.



The main aim of the industry is to provide a safe and efficient service to the public. The industry is a natural monopoly and it is in the public interest that it should be regulated. The industry is a natural monopoly and it is in the public interest that it should be regulated. The industry is a natural monopoly and it is in the public interest that it should be regulated.

I am copying this letter to the Prime Minister, to members of the House of Commons and to the House of Lords.

[Handwritten signature]

[Handwritten signature]

CONFIDENTIAL

cc ~~PAW~~

Treasury Chambers, Parliament Street, SW1P 3AG 2

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 London SW1P 3EB

Prime Minister

To write. The Treasury
 does remain very concerned
 about this. (You will remember
 that it came up at Disc 66.)
 They fear the repercussions of
 8% or more. BA and B. Ridley
 14 October 1985
 want it to help prepare for
 privatisation.

Dear Nicholas,

BA PAY for engineers.

You wrote to Kenneth Clarke on 7 October about BA's pay negotiations.

As you know, I share Kenneth's concern at the level of the pay settlement which BA envisage, and indeed at their opening offer; we discussed this following our PES meeting on 21 September. I agree that it is extremely important to highlight the "productivity element" of any final outcome. But even presented as 4 per cent on basic rates plus a productivity deal worth 4 per cent, a settlement at the level of the opening offer would be unhelpful for other public trading sector negotiations; and anything much higher could be very damaging. It is important, too that the second year of the deal should give a significantly lower increase than the first year.

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

Yours etc,
 JH

JOHN MacGREGOR

CONFIDENTIAL

AEROSPACE PT 4

Future of BA



CCP
W



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

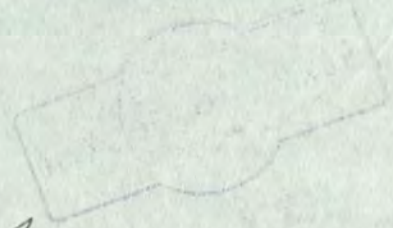
NBPN.

The Rt Hon Kenneth Clarke MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9HF

7 October 1985

Dear Kenneth

at foot



Thank you for your recent letter about the proposed pay offer to British Airways engineers.

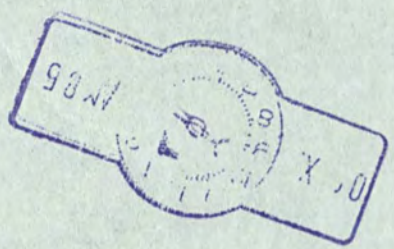
I share your concern about the implications of a high settlement for BA staff. As I made clear in my letter of 18 September to Nigel Lawson, BA are currently negotiating on a pay and restructuring deal which, if agreed, would imply a settlement well below 10%, with 4% being covered by way of improved productivity. I have, as you know, already impressed upon BA the desirability of reaching as low a settlement as possible as well as the need to present it in the best possible light. Following discussion at MISC66(2) Lynda Chalker has had a further word with Lord King to reinforce the message. It is already clear, however, that BA will not have an easy ride in attempting to restructure the engineering grades - which forms an essential part of their plan to reduce unit costs in the lead up to privatisation. I will be keeping a very close eye on how matters proceed.

/ I am copying this letter to the Prime Minister, colleagues on E(PSP) and to Sir Robert Armstrong.

Nicholas Ridley

NICHOLAS RIDLEY

Aerospace; Future of BA ; Pt 4





CC No

20
Prime Minister

ECONOMIC REGULATION OF AIRPORTS

In Nicholas Ridley's absence abroad I am writing to you and members of EA about the scheme we propose to introduce in the forthcoming Civil Aviation Bill to provide for the economic regulation of airports.

You will recall that the Government's proposals for legislation were outlined in the White Paper on Airports Policy (Cmnd 9542) published on 5 June. Our main objectives are the privatisation of the British Airports Authority, and the conversion of major local authority airports to companies, with powers for their owners to sell shares to the private sector or to other local authorities. We hope in this way to encourage a more business-like approach in regional airports which hitherto have developed rather slowly as public utilities. However, these new airport companies, particularly the BAA's, will have many of the features of natural monopolies and new arrangements are needed to prevent the exploitation of these monopolies.

The White Paper stated in Section 10 that privatised airports should be subject to the competition laws that apply to other private sector enterprises, and that the Civil Aviation Authority's powers would be extended so that it can regulate airport charges with help from the Monopolies and Mergers Commission. We have elaborated these proposals in consultation with the Department of Trade and Industry, the Treasury and others concerned, and have sent Instructions to Counsel for the drafting of the necessary clauses in the forthcoming Bill. I attach an outline of the scheme for the information of colleagues.



You may find it helpful if I comment on the main aspects noting the points which have caused us some difficulty. First, it was agreed in Cabinet when the draft White Paper was considered, that the CAA should be the regulatory body for aeronautical charges at airports. The Authority is already responsible for aerodrome safety licensing and air transport licensing. It has detailed knowledge of the operation of airports and the economics of airline operations and is the most appropriate body to undertake this new function. However, we found in developing these proposals that there were a range of core activities at an airport which could not be included in the narrow definition of aeronautical charges, but which should be subject to special regulation because they presented opportunities for the airport operator to penalise particular users. One example of this is the arrangements for baggage handling, where some airlines complain that the BAA unnecessarily restrict competition. Nicholas Ridley felt that it was important for the CAA to have powers to regulate all these activities and we have therefore widened the scope of their duties beyond what we had originally envisaged. Where they cannot resolve the problem by agreement with the airport operator they would of course seek the help of the MMC.

This brings me to the main difficulty we have encountered, which is the potential overlap between the duties of the CAA and those of the Director General of Fair Trading. Broadly speaking, the DGFT would be concerned with commercial activities at airports (duty-free shops, car parks, catering, renting of property) whilst the CAA would be responsible for regulating the core activities and implementing public interest findings by the MMC including those which are outside the scope of the Authority's responsibilities. A similar problem was dealt with in Section 50 of the Telecommunications Act 1984 by giving the Director General of Telecommunications and the DGFT concurrent powers and a structured relationship. However, this does not seem to provide the clear definition of the role of the two bodies and the predictable pattern of regulation which we believe is



so important in the case of airports. More relevant in our view are the voluntary arrangements set up by the CAA and the DGFT on their respective functions in relation to the licensing of air services. We propose that the CAA and the DGFT should reach and publish a similar understanding in relation to the regulation of Airports. But since we have an opportunity for legislation, it would be sensible to make provision in the Bill for the Secretary of State to have power to set out the division of responsibilities and the procedures in Regulations, should no satisfactory agreement emerge. We would of course envisage that, as a matter of administration, the Secretaries of State for Transport and for Trade and Industry would act jointly in preparing such Regulations.

I hope that colleagues will be content with the broad outline of the scheme. My officials will be consulting DTI, Treasury and other interested Departments on the detailed drafting of the clauses. Meanwhile, I would be pleased to provide a copy of the Instructions to Counsel to any colleague who wishes to see them.

I am copying this letter and enclosure to members of EA and to Sir Robert Armstrong.

LC

4 October 1985

OUTLINE OF SCHEME FOR ECONOMIC REGULATION OF AIRPORTS

Summary

1. (a) Competition and Fair Trading Law will apply in principle to all airport companies.
(b) The new scheme will superimpose a system of special regulation of airports to be exercised by the CAA, who will be given new functions.
(c) The purpose of this scheme is to regulate prices and terms and conditions of core activities, defined as services or facilities provided at the airport for the movement of aircraft, passengers, luggage and cargo; this is intended to cover, for instance, baggage handling, but not car parks, restaurants, shops or renting of property.

Airports within scope

2. The CAA's new regulatory functions will apply to all airports (except the CAA's own airports) above the threshold (£1m turnover) above which local authority airports may be directed to be transferred to a company. However, there will be two levels of regulation:

(a) the generality of these airports, where the CAA will have, effectively, a watching brief, with powers to regulate aeronautical charges and other terms and conditions if it sees fit (eg as a result of a complaint which is sustained after investigation); and

(b) major airports designated by the Secretary of State (eg BAA's South East airports and Manchester), where the CAA will in addition have a duty to set a 5-yearly limit on aeronautical charges.

CAA'S General duties

3. The CAA will have to exercise its new functions in the manner best calculated to:

(i) further the reasonable interests of persons using the airports for the purpose of air transport;

(ii) promote the efficiency of British airports and their reasonable profitability and encourage investment in new facilities in time to meet demand;

(iii) impose the minimum restrictions consistent with the performance by the CAA of its duties.

Details of the scheme

4. The basic proposition is that any airport operator within the scope of the provisions will require a

permission to levy aeronautical charges, to be issued by the CAA (although the Secretary of State will have a power to issue the initial permissions). The CAA (or the Secretary of State initially) will be able to attach conditions to the permission governing the operation of the airport undertaking's business. The permission, and the conditions attached to it, will provide the vehicle for regulation. The following additional features will be noted:

(a) the CAA will be able to refuse permission only if the airport fails to provide the information (eg accounts, etc) required by the CAA;

(b) an airport without a permission will be unable to enforce recovery of charges, but will not be subject to criminal proceedings;

(c) the CAA will be able to grant a single permission covering a system of airports but may impose specific conditions on each individual airport.

5. Conditions can only be imposed for certain specific purposes: at the generality of airports (those not designated) only for -

(i) protecting users from unfair trading practices;

(ii) protecting other airports from predatory pricing;

(iii) ensuring that airport accounts are transparent, revealing any subsidy (including subsidised capital) from an airport within the same group or from a holding company or other owner (eg a local authority).

Where the CAA having investigated a practice under (i), or (ii) decides that corrective action is necessary it may seek undertakings from the airport concerned; or it may propose a condition. But where the airport operator does not agree to the condition, the CAA will be required to make a reference to the MMC who will investigate and report on the practice in question. If the MMC reports that a practice is contrary to the public interest, the CAA will be under a duty to impose an appropriate condition to correct the abuse, and the airport will have to comply.

6. At designated airports (ie the major ones nominated by the Secretary of State), the CAA shall additionally be under a duty to impose conditions -

(a) to ensure disclosure of subsidisation, and

(b) to govern the upper limits of aeronautical charges for a period of 5 years (most probably by means of a formula).

For the purpose of (b) the MMC will carry out quinquennial reviews, unless the Secretary of State determines otherwise in relation to any airport, to investigate the limits to

which the level of charges should be subject over the next 5 years and any practices which may be contrary to the public interest. Where the MMC makes recommendations as to a price limit formula the CAA will have a duty to impose a condition; if it varies the formula recommended by the MMC it must state its reasons. These conditions will be valid for five years and can only be modified with the agreement of the airport operator. Where the MMC finds a practice to be against the public interest, the CAA will be obliged to impose a condition to prohibit the practice. Only the Secretary of State will have power to prevent implementation of a public interest finding.

Complaints and enforcement

7. Breach of a condition by an airport will not give rise to criminal proceedings. The CAA shall investigate any complaints (other than frivolous ones) made by a person who has paid or is due to pay charges or by another airport; and may investigate complaints by other persons at its discretion.

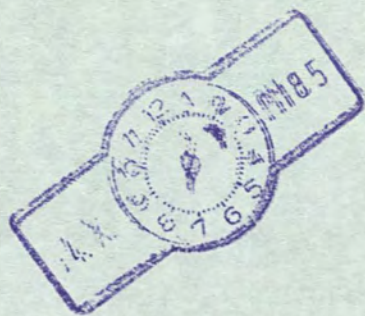
8. A mechanism will be provided for "compliance orders" to be issued by the CAA where there is a breach of condition, and the airport will have a duty to comply. However it will be able to apply to a court if it feels the compliance order is unjustified. We have not provided for appeals to the Secretary of State.

Information etc

9. The CAA will have powers to obtain the information it needs from any airport to enable it to issue permissions, determine conditions and advise the Secretary of State whether the airport should be designated. There are further provisions to prevent disclosure without the consent of the airport concerned of certain information obtained by the CAA or MMC.

Overlap of OFT and CAA responsibilities

10. In order to avoid uncoordinated action by the CAA and OFT over the same matter, it is proposed that CAA and the DGFT reach a voluntary agreement on the division of responsibilities, as has been achieved on Air Services. However, the Secretary of State would have powers to make regulations prescribing the circumstances and procedures for each body to exercise its functions should a sensible agreement not emerge.



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CC/10



CONFIDENTIAL
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

25 September 1985

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

1. ~~CAD~~
To see - including
FCS's minutes
2. NBP7
DLS
26/9

Dear Geoffrey,

US/UK AVIATION : FUTURE STRATEGY

Nicholas Ridley copied to me his letter to you of 18 September, enclosing his proposals for resuming the dialogue with the Americans on future aviation relations, including the problem of antitrust.

2 The Laker liquidator's action clears the way for a resumption of this dialogue, and Michael Spicer's meeting with Mrs Dole is a good opportunity to make a start. I also agree that the antitrust issue must be on the agenda; otherwise a move towards a more liberal regime would merely increase the risk of new disputes like the Laker case.

3 I believe that Michael Spicer should place the problem of antitrust as it affects aviation in the wider context of our problems with US antitrust generally. On this, there are signs that many in the US are coming to recognise that the right of private treble damage actions against foreign companies can threaten the international relations of the United States. Senator De Concini's bill, which would limit the right of private treble damage action where foreign interests are involved, is an encouraging development.

4 It seems to me doubtful however whether a complete solution to these difficult issues is attainable within six months. There may be different views even within the Administration on the package suggested by Nicholas Ridley. And only new legislation could provide a lasting solution to the antitrust problem.

JF2ADP



5 For these reasons, I favour the approach put forward by Sir Oliver Wright in Washington telegram 2636, and particularly the suggested line in paragraph 5. This emphasizes the link between a more competitive aviation regime and a solution to the antitrust problem; but it relates it to our wider problems with US antitrust laws, and does not lay down a rigid timescale.

6 I am copying this letter to Nicholas Ridley, to the other members of MISC 112, and to Sir Robert Armstrong.

Leon

LEON BRITTAN





CONFIDENTIAL

CC 400

NBPT.

FCS/85/250

SECRETARY OF STATE FOR TRANSPORT

US/UK Aviation: Future Strategy

1. Thank you for sending me, with your letter of 18 September, your thoughts on what we should now do to try to make progress with the United States government on the application of US anti-trust law to international civil aviation.

2. I agree that it remains important to try to settle the whole question of the operation of US anti-trust law, and that Michael Spicer should raise this question as it applies to civil aviation when he sees Mrs Dole on 3 October. But I am much impressed by the conclusions of the analysis in the first half of your paper, that in fact our hand is extremely weak, and there is no real pressure we can bring to bear on the United States without the danger of doing more harm to ourselves.

3. A direct approach to the US government now offering more liberalisation on the North Atlantic (which I note that our independent airlines would view with reservations), in return for action by the Administration to secure legislation from Congress which it is almost certainly not yet ready to contemplate and there is no guarantee it could in practice deliver, would run a real risk of becoming a further cause of US/UK political disagreement. Also, I do not think frankly that in present circumstances either of the points in paragraph 8

/of your

CONFIDENTIAL



of your paper would carry great weight with the Americans. I conclude that what is now needed is a radical look at our whole approach to the anti-trust problem.

4. I should therefore much prefer that Michael Spicer should go no further when he visits Washington than to underline our continuing objections to the application of US anti-trust laws to international civil aviation, make it clear that the issue of anti-trust in our bilateral relations will not go away and needs to be resolved, and ask whether the United States is yet ready to resume discussions - perhaps where they were left last Autumn. In the light of Mrs Dole's reply, we should take a considered look at what to do next, both on anti-trust and competition, and on the question of greater liberalisation on the North Atlantic.

5. I am copying this minute to the members of MISC 112 and to Sir Robert Armstrong.

CLBudd (Private Secretary)

(Approved by the Secretary of State and signed in his absence)

Foreign and Commonwealth Office

23 September 1985



Aerospace: BA: PE 4

Department of Employment
 Cotton House, Torrhill Street, London SW1H 0NE
 Telephone: 071 5949
 Switchboard 01 212 2000

The Rt Hon Nicholas Ridley MP
 Secretary of State
 Department of Transport
 2 Marsham Street
 LONDON
 SW1

20 September 1985

Dr. Ridley,

with DN? will req. if req.

I have seen your letter of 18 September to Nigel Lawson about the proposed pay offer to British Airways engineers. I can understand that with the flotation imminent the board are keen to settle without serious industrial action. And undoubtedly there is also pressure on BA pay rates from other airlines.

However, following an offer to local authority manual workers of 8.2%, an offer of 10% to BA engineers would seriously weaken attempts to moderate public sector pay increases. It would indeed be the worse start to the year's pay round that we have had for some time. It would also give the wrong signals to private sector employers and employees. An increase of 10% will be well above the increase in the retail price index, and would quite disregard the predicted further fall in the RPI.

Given the wider implications of this offer you may wish to consider contacting the Chairman of BA to indicate your concern, and the desirability of attempting to reach a settlement well below 10%. If we really have to accept the argument that a relatively low settlement is not possible then the Chairman should at least be asked to consider carefully how the settlement can be presented in the most favourable light, eg a relatively low basic offer, plus productivity payments.

I am copying this to the Prime Minister, colleagues on E(PSP) and to Sir Robert Armstrong.

J. L.

KENNETH CLARKE





DEPARTMENT
2 MARSHAM STREET
01-212 3434

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.

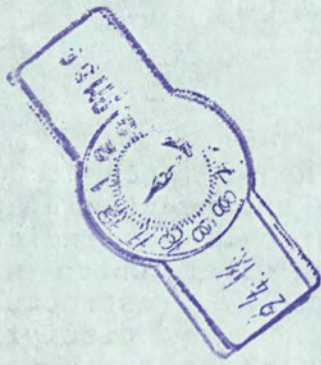
BA will subsequently have to open pay talks with the remaining 9 National Sectional Panels, covering the rest of their employees. They will again press for productivity offsets, especially from pilots where there are important gains to be made. I have again asked that I be kept in touch and, in turn,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



CERO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

for

*BIF as letter from
over depts come in please:*

*DES
19/9*

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

18 September 1985

Dear Sir Geoffrey,

US/UK AVIATION: FUTURE STRATEGY

I attach a paper which sets out our views on the best way of seeking to make progress with the US Government, particularly over anti-trust, now that the Laker suit has been settled. I understand that the conclusions contained in the paper are broadly shared by your officials.

In my view we need a political initiative to re-establish the dialogue which the Americans broke off late last year and to build on the encouraging progress which was being made up to that point. The first opportunity will occur on 3 October when Michael Spicer meets the US Secretary of Transportation, Elizabeth Dole, and, if you and other colleagues are content, I propose that we should use that occasion to press for an early resumption of negotiations and to pursue those negotiations on the basis of the strategy set out in the attached paper.

I am copying this to the members of MISC 112 and to Sir Robert Armstrong.

Yours sincerely,

Richard Allan

(Private Secretary)

for NICHOLAS RIDLEY

*(approved by the Secretary
of State + signed in his
absence).*

UK/US AVIATION: FUTURE STRATEGY

Irrespective of the settlement of current anti trust cases it remains a primary and important objective to resolve the anti trust dispute with the US. Indeed, the cost of settling the Laker liquidator's case and the continuing risk of new cases which, however spurious, would nevertheless engage substantial financial and management resources, has effectively underlined the need to achieve a satisfactory settlement which removes the risk of anti trust action and especially the costly private suits.

2. A settlement of the dispute may require a mixture of pressure and persuasion - eg. the "stick" of a highly restrictive/protectionist approach to aviation so long as the dispute remains unresolved and British airlines remain potentially exposed to anti trust action in the US courts or the "carrot" of a liberal and competitive regime provided we get an agreed approach to competition/anti trust problems.

3. The steps which the UK could take under the existing Bermuda 2 agreement to bring pressure to bear on the US authorities and their airlines are as follows:

(i) New gateways

Under the current agreement, new gateways have been

- 2 -

added year by year, but this period of growth will shortly come to an end. The US would probably like it to continue, but our airlines are more interested in access to points behind the existing US gateways. We shall be under no obligation to add new gateways not already foreseen, although a tough stance in this area might be particularly difficult to sell to Manchester.

(ii) Tariffs

We might, in theory, be much more restrictive about approving tariffs for US airlines, or even perhaps insist that each and every tariff (other than those we are obliged to approve under the ECAC/US Agreement) should be negotiated directly between governments in order to minimise the risk of anti trust actions; but we could find ourselves in serious difficulty if the US Government and their airlines chose to ignore our requirements and, in effect challenged us to stop them.

(iii) Charters

We could be more difficult about approving charters, particularly in the area of fifth freedom rights.

(iv) Operating permits

In order to improve our enforcement powers, we envisage tightening up in this field in any case. But we could invent more tedious and lengthy bureaucratic processes for the granting of permits to US airlines, to match

- 3 -

those which UK airlines have to go through in the United States.

(v) All-cargo services

We have already sought consultations under the Cargo Annex and could in effect reintroduce regulation into what is a virtually deregulated area of activity which US airlines virtually monopolise.

4. We are very doubtful whether these measures would prove effective, if put to the test, in forcing the United States Government to remove international aviation from the purview of their anti trust laws. Effective capacity control (the control which would bite deepest) is not available to us without a replacement for Annex 2 of Bermuda 2 (which expires next year and a successor for which we are attempting to negotiate), at least until after the damage has been done. Clamping down on charters and inventing new tangles of red tape for operating permits would cause a good deal of irritation but not, we fear, a change of heart. The US airlines might indeed like new gateways, but they could get along very nicely without any more for some years. Direct negotiation of tariffs between governments would be a monumental task in a market where new offers spring up like mushrooms, and one which the US Government would find distasteful, but it would only work if they accepted an obligation to negotiate every fare with us and if we could be sure that the UK courts would back us up in preventing a US airline carrying passengers at fares which had

- 4 -

not been approved. We are studying the scope for effective action against US airline tariffs, but we would be reluctant to recommend at this stage that such action should be made to bear any great weight in a negotiating strategy. Quite apart from its doubtful chances of success against very powerful market forces, it would be a difficult policy to present politically; the public would not see why they should be denied prompt access to cheap fares so that UK airlines could win exemption from the US anti trust laws.

5. We conclude that, short of termination of Bermuda 2, we do not have at our disposal means which might possibly force the United States Government against their will to exempt UK/US aviation from the purview of the anti trust laws; and that it would be politically difficult to justify terminating the Agreement at this stage ie. before a serious attempt to reach agreement over anti trust has been made or before real damage to our airlines can be demonstrated in the field of capacity control (eg. "swamping"). In any event termination of Bermuda 2 could create so much uncertainty about BA's prospects in their most important long haul market that it would put privatisation at risk once again.

6. In the anti trust field, the essence of what we are seeking is US legislation removing the damaging private treble damage anti trust suit from international aviation - at least on UK/US routes. This will not be easy to achieve and much will depend not only on the willingness of the US administration to

- 5 -

introduce such legislation but also on the receptiveness of Congress to such a proposition. Nevertheless last autumn the two sides made considerable progress towards a package which envisaged the introduction of such legislation on the one hand and changes to Bermuda 2 (incorporating greater transparency of airline discussions and a more liberal tariff regime) on the other. UK airlines would, on balance, welcome the greater commercial freedom inherent in a more liberal tariff regime. In the capacity field (Annex 2) BA in particular also favour a more liberal capacity regime, provided that they can also get certain improvements in access to the US market; BCal are more nervous about the competition they face at their US gateways and are therefore more interested in capacity safety nets; Virgin Atlantic is currently protected by the special deal we have for them and People Express, and would want that to continue. In short, the sort of deal already put to the Americans in this area, trading enhanced market access for capacity freedom within 40:60 market shares and safety nets beyond, was designed to reconcile the divergent interests of the UK airlines and should be beneficial to them. Of course, it has attractions to the US side as well, as it needs to do if there is to be any replacement at all for the existing Annex 2 capacity control mechanism which runs out in July 1986.

7. Liberalization on the terms we have put to the Americans, which includes both removal of the private anti trust suit from international aviation and enhanced access to the US market, should allow both UK and US airlines to benefit from a more

- 6 -

liberal environment, but it is probably true to say that only BA face a more competitive future on the North Atlantic with real confidence. BCal and Virgin, despite their public images, are much more nervous about the prospects. On balance, however, given that we wish to encourage more competition in international aviation where possible, we believe that the liberalization packages we have put to the Americans represent a risk worth taking.

8. If the analysis in the preceding paragraphs is anything like right, we have quite a nice carrot to offer the Americans in negotiations, but, short of termination of Bermuda 2, rather a weak stick. It would certainly help our negotiating position if the Americans could be brought to believe that failure to resolve the anti trust dispute and to grasp liberal arrangements on more or less the terms we have offered would be likely to have serious consequences for their airlines. There are two main arguments which can be deployed to this end:

(a) The political and legal case on anti trust

The Laker case has been costly to our airlines and a political minefield; and both sides have done well to avoid worse damage to our relations, both in aviation and more widely; any further actions in the US courts could delay BA privatisation beyond the lifetime of the present Government; in such circumstances we should have nothing to lose by terminating the agreement; the only sensible course for two friendly governments whose political and economic philosophies are broadly similar

- 7 -

must be to negotiate jointly agreed satisfactory bilateral arrangements to encourage competition and to ensure that it is fair without the unilateral application of either side's competition laws, before there is any risk of the situation becoming further complicated by new actions in the courts. If there is one thing on which the Courts on both sides of the Atlantic are agreed, it is that the Laker case has uncovered a dispute between the two governments about the proper meaning and interpretation of the Bermuda 2 agreement, which it is for the two governments to resolve.

(b) The aviation case for replacing Annex 2

US airlines currently have about 60% of the UK/US market. This is a reflection in part of the growing concentration of the US aviation industry post-deregulation which is making it increasingly difficult to assure conditions of fair and equal opportunity for UK airlines at US hubs dominated by US carriers protected by the combined strengths of their cabotage networks and heavily biased computer reservation systems. If the US Government fails to negotiate on a satisfactory replacement for Annex 2, they will have only themselves to blame if we are forced to terminate the agreement and start again, as we did ten years ago.

9. The best way forward in the immediate future is to approach the US at the political level and draw on the arguments in

- 8 -

paragraph 9 above to emphasise the importance of resuming negotiations, both on the tariff liberalization/anti trust package and on the capacity liberalization/market access package, with a view to reaching agreement in both areas within six months - ie. before the planned privatisation of BA. We should also stress the political importance which will be attached to conducting the negotiations in a constructive spirit with both sides committed (publicly if possible) to a satisfactory outcome which will lead to a more liberal regime on the North Atlantic under conditions of fair and equal competition bilaterally agreed and bilaterally applied.

Department of Transport



CNO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON SW1

30 August 1985

John White

PRIVATISATION PROGRAMME

John Moore mentioned to you before the Recess that we have been thinking about the implications for the privatisation programme of the legal difficulties still affecting the prospects for the British Airways sale, given other likely new issues in January and February 1986.

Since we cannot be confident that the BA sale can go ahead in 1985-86, I would like to sustain the momentum of the programme by putting something in its place for this year and to assume the late spring or early summer of 1986 for BA. I am therefore planning to announce another privatisation issue very shortly to go ahead, subject to market conditions, in the current financial year.

It is very probable that when this announcement is made, commentators will draw the conclusion (to the extent that they have not done so already) that the BA sale will not be going ahead in this financial year. By adding the expected proceeds from the newly announced sale to those already received from other sales and the second call on British Telecom, they will be able to see that the Government is broadly on course to meet its target of £2½ billion for special sales of assets without any contribution from BA.

I understand that our officials have already been in touch about the line to be taken in response to any enquiries about the timing of the BA sale. I propose we say that we intend to sell BA as soon as possible; present expectations are that the sale will be in the spring or summer of 1986, but no definite timetable has yet been set.

I am sending a copy of this letter to the Prime Minister.

Nigel Lawson
NIGEL LAWSON





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

020
Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON
SW1

CEVO
21 August 1985

Dear Tim,

ms
Pine Mark

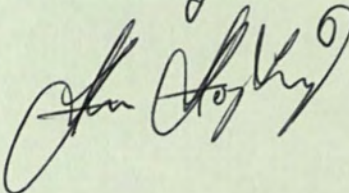
BRITISH AIRWAYS: LAKER LITIGATION

↓ 22/8/85
The Secretary of State has asked me to let you know that last night, when the offer to him was due to expire, Sir Freddie Laker agreed to abandon further legal claims against British Airways and the other defendants in the Laker Airways liquidator's suit, in return for payment of the \$8m which the defendants had offered. As well as dropping his own claims Sir Freddie is procuring releases from Lonrho against further legal action on their part. As part of the agreement BA has agreed to provide, and to seek to procure from the other defendants, a letter of comfort, undertaking not to discriminate against any airline in which Sir Freddie may have a shareholding of at least 10%. This will cover matters such as baggage handling and interlining.

As a result, Sir Freddie Laker will now withdraw the appeal he had lodged against the English High Court's approval of the out of court settlement of the liquidation, and he and the liquidator will return to the Jersey court to request that their consideration of the proposed settlement be completed. Once the approval of the English and Jersey courts has been obtained, the parties will then return to the American courts to obtain Judge Greene's approval of the settlement and dismissal of the treble damages suit. These remaining procedural steps may take another three or four weeks, but with the withdrawal of Sir Freddie Laker's and Lonrho's objections, BA do not expect any further serious obstacles to a settlement of this law suit.

This will dispose of one of the major legal problems which have been delaying privatisation and is likely to re-awaken interest in when a fresh target date for flotation can be set. The Secretary of State has asked me to say that the class action, in which BA are joint defendants with Pan Am and TWA, is also a major cause of uncertainty which needs to be resolved. Negotiations on an out of court settlement of this case are at a very early stage. The response to any questions should therefore be that although settlement of the Laker liquidator's suit disposes of one problem, there are major issues arising out of US Anti-Trust law still to be resolved before a fresh timetable can be set.

I am copying this to the Private Secretaries to the Foreign Office, Chancellor of the Exchequer, Secretary of State for Trade and Industry, Attorney General and Sir Robert Armstrong.

Yours sincerely,


HUW HOPKINS
Private Secretary

P.S. I attach a copy of a press release
just issued by BA.

SETTLEMENT AGREED WITH SIR FREDDIE LAKER

British Airways today announced that an agreement had been reached with Sir Freddie Laker by which he and Lonrho Plc have released any claims asserted by Sir Freddie Laker personally, and/or Lonrho Plc against the 12 defendants involved in the anti-trust litigation brought by the Laker liquidator and certain others, in return for a payment of \$8 million to Sir Freddie: (Full list of defendants attached). The release includes claims asserted in relation to events after Laker Airways went into liquidation.

The terms of the agreement with Sir Freddie are in accordance with the terms set out in the offer made on July 11, 1985 and made public by British Airways on July 12, 1985 in the announcement of the agreement reached with the Laker liquidator involving payments to the Laker creditors. The release of the claims was agreed by Sir Freddie with the authority of Lonrho Plc. The agreement was reached within the deadline of 20 August 1985 as stated in the offer to Sir Freddie Laker made on July 11, 1985.

m/f

-2-

Colin Marshall, Chief Executive of British Airways, commenting on the agreement said "The necessary approvals by the English, Jersey and American courts for the agreement reached with the Laker liquidator on July 12 involving payments to the Laker creditors are proceeding satisfactorily. As we have consistently stated, it is a wish of the defendants to see an end to all litigation arising from the collapse of Laker Airways and the agreement now reached with Sir Freddie is another important step forward in achieving that conclusion.

"As with our settlement with the liquidator, our agreement with Sir Freddie bears no admission of guilt on behalf of British Airways or the other defendants to drive Laker out of business or to breach US anti-trust laws. The advantages to British Airways and the other defendants of ridding ourselves of all aspects of the Laker litigation for a very small fraction of the total amount claimed has encouraged all parties to the litigation to reach a satisfactory out of court settlement."

Mr Marshall concluded "Our settlement with Sir Freddie, combined with the steady progress in gaining court approval for our agreement with the Laker liquidator, now only leaves a settlement of the outstanding class actions. British Airways is making progress in its endeavours to reach a settlement in respect of the class actions."

oOo

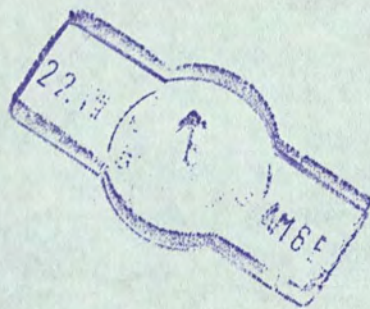
Defendants involved in the Laker litigation are:

British Airways
Pan American Airways
Sabena
UTA
TWA
KLM
SAS
British Caledonian
Swissair
Lufthansa

and McDonnell Douglas Corp.
McDonnell Douglas Finance Corp.

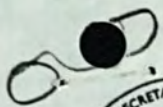
2509P

21 August 1985



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File



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Tim Flesher Esq
10 Downing Street
LONDON
SW1

Note.

(A) Spoke to Richard Allan D/TIP has been in contact with N Sproat who says (i) he has nothing with the Portland was not secret (ii) he did not relay a request from the Prime Minister to Laker to assist Laker.
15 July 1985

RT 16/7

Dear Tim,

(B) PM denies knowledge also of any such requests.

As promised, I attach briefing for Prime Minister's Questions tomorrow about the Laker litigation and British Airways' privatisation. Please note that the background note is classified confidential.

My Secretary of State has asked that the Prime Minister's attention be drawn to paragraph 8 of the background note which refers to claims by Lonrho that she was involved in requests for Lonrho to assist Laker after Laker's collapse. (For further background see the attached transcript of Mr Rowland's broadcast on the "Today" programme today.) We have not, so far, found evidence for this claim in the Department's records; but the Prime Minister will wish to be aware of the claim and may, as appropriate, wish to rebut it.

Yours,
Richard.

R A ALLAN
Private Secretary

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SETTLEMENT OF LAKER LIQUIDATOR'S ACTION

Q1. WILL THE GOVERNMENT NOW FIX A DATE FOR PRIVATISING BRITISH AIRWAYS?

A1. We wish to privatise BA as soon as possible. Settlement of the Laker liquidator's action is a first step, but there is also a class action in the US courts against BA and two American airlines. Negotiations to settle that are at a very early stage, and BA cannot forecast how long it will take to clear it up.

Q2. WILL BA BE PRIVATISED AS SOON AS THE CLASS ACTION IS SETTLED?

A2. Hope so, but don't know how long that will be. Other technical factors will need to be taken into account, eg finding a place in the Stock Exchange queue, allowing time for proper marketing.

Q3. NOW THAT A SETTLEMENT SEEMS CERTAIN WHY NOT INDEMNIFY BA AGAINST THE EXPECTED COST SO THAT PRIVATISATION CAN GO AHEAD AT ONCE?

A3. It is for BA to decide whether to settle litigation against them and on what terms, in the light of their commercial judgment.

Q4. DID HMG PRESS BA TO SETTLE WITH THE LIQUIDATOR TO ENABLE PRIVATISATION TO GO AHEAD?

A4. No. The directors of BA decided that it was in the company's commercial interest to seek a settlement at the present time, and that the terms finally obtained were acceptable.

Q5. HOW MUCH WILL THE SETTLEMENT COST BA? (ANY OTHER QUESTIONS ABOUT THE DETAILS OF THE SETTLEMENT)

A5. That is a matter for BA.

Q6. DOESN'T THE FACT THAT THE AIRLINES HAVE HAD TO PAY A LARGE SUM IN SETTLEMENT MEAN THAT THEY WERE GUILTY?

A6. No. The defendants have not admitted liability. One of the objectionable features of the US system is that most of the costs are not recoverable if the defence succeeds.

Q7. DO YOU THINK IT RIGHT THAT LAKER SHOULD BE OFFERED \$8M?

A7. It is deplorable that this case should have been brought and that any payments should have to be made. Who should be included in the settlement is for the commercial judgment of the defendants.

Q8. SHOULD LONRHO BE COMPENSATED, AS MR ROWLANDS ALLEGES THAT HMG ENCOURAGED THEM TO REHABILITATE LAKER?

A8. As far as I am aware, Lonrho have no grounds for any legal action. They have no claims on the Government.

Q9. APPLICATION OF ANTI-TRUST TO CIVIL AVIATION.

A9. HMG does not accept that US anti-trust law should apply to civil aviation, which is regulated by international agreements. Deplorable that UK airlines should have to make expensive settlements in cases which should never have been brought. HMG has had various discussions with the US administration but latterly has been holding back to await the outcome of the present attempts to settle out of Court. We will be looking for a resumption of discussions when they have been settled.

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PRIME MINISTER'S QUESTIONS: TUESDAY 16 JULY

BRITISH AIRWAYS: SETTLEMENT OF LAKER LIQUIDATOR'S ACTION

BACKGROUND NOTE

Settlement Terms

1. It is for BA to explain the terms of the settlement. HMG's approval as shareholder was not required. BA's press release on 12 July gave the following figures.

	\$m
Payments to creditors (estimated) including payment in full to all small creditors.	48
Offers to liquidator's US lawyers	8
Sir Freddie Laker	8
Total	<u>64</u>

2. Later on 12 July, BA settled with the US lawyers at \$12.5m. The offer of \$8m to Sir Freddie Laker remains open until 20 August; it will be withdrawn if he or Lonrho meanwhile initiate any legal action against the liquidator or the defendants. BA currently expect the full cost of the settlement, if Laker accepts the \$8m, to be about \$66m.

3. BA expect contributions totalling \$18m from Pan Am and TWA and a further \$18m from the seven European airline defendants and BCal. The cost to BA would therefore be of the order of \$30m, of which \$10m would be in the form of increased interest payments to Exim. BA are obtaining insurance cover against excess costs of the settlement which they would have to bear, up to a limit of \$10m above an excess of \$1m.

4. The apportionment of costs has not been released, or reported in the press. Comment on any of the details of the settlement should be avoided.

Other litigation

(a) In relation to the existing case

5. Sir Freddie Laker has not indicated whether he will accept the offer. If he decides to fight, the courses open to him would be to challenge the liquidator's settlement in either the English or the Jersey courts, or to mount a fresh action in the USA. Although he would probably get a hearing his chances of overturning a settlement in which all the minor creditors are paid in full, and to which all the other creditors have agreed is slight. None of the fresh actions he might mount in the US courts is thought by BA's lawyers to stand much chance of success, but their potential for delaying the end of all anti-trust litigation is uncertain.

6. BA therefore hope that Sir Freddie Laker will come to see the value of the offer made to him and accept it, to remove this cause of continuing uncertainty. The decision to settle, with or without Laker, was taken by the directors of BA in the commercial interest of the company.

(b) Laker/Lonrho

7. The claims of the Laker/Lonrho companies and joint ventures established after the collapse of Laker Airways have never been spelt out in detail although Lonrho have said their claim is worth \$327m assuming the award of treble damages. Their claims are thought to be based on the failure of the new airline venture (People's Airline) to inherit the operating licences of Laker Airways - as a result the new airline never started business; and of Skytrain Holidays which ceased trading after one season after operating at

a loss - allegedly because of failure to gain admission to ABTA which, inter alia, provides an insurance fund and arrangements for holidaymakers against the possible collapse of tour operators. In the case of People's Airline, licensing decisions were a matter for the CAA. The applications were withdrawn after discussion with the CAA who had explained that they would find it difficult on technical grounds to sanction transfer of the former Laker Airways' licences. Exclusion from ABTA was taken by a vote of their general council (BA and BCal are members). Neither failure seems to provide grounds for a US anti-trust case, or for the linking of any complaint with events leading up to the failure of Laker Airways.

8. Mr Tiny Rowlands has alleged publicly (on the BBC radio 4 'Today' programme on 15 July) that Mr Sproat held a ~~secret~~ meeting with him, at the request of the Prime Minister, to ask if he would help to rehabilitate Sir Freddie. The Department of Transport has been unable to contact Mr Sproat, who is away. Official records show that the approach to Mr Sproat was made by Laker and Rowlands; while Mr Sproat gave a sympathetic hearing to them, he made it clear that decisions on licenses were entirely for the CAA.

(c) Class action

9. The class action has been brought by contingency fee lawyers on behalf of a large number of transatlantic air passengers. It is alleged that the fares they paid were higher than they would have been if Laker Airways had continued to fly. Negotiations on settlement have made little progress recently because TWA, who are joint defendants with Pan Am and BA, have been preoccupied with the recent hijacking and with attempts to take them over. Judge Greene is now on holiday for a month and his provisional approval

to the proposed settlement cannot now be sought until mid-August. Allowing the minimum period possible for advertising for claims, the class actions cannot be settled until November at the earliest. So far there has been no public comment on the possible timetable for the class action.

Timetable for privatisation

10. BA and the Government agree that it is essential that there should be no more false starts, and that a timetable should only be set for privatisation when we can be confident of achieving it. The response in public to questions about the privatisation timetable has therefore been that while the settlement of the liquidator's case removes a major obstacle, the class action also has to be settled before privatisation can go ahead. Negotiations on this are at a very early stage, and we cannot tell how long it will take to resolve, although it remains the Government's hope that BA can be privatised during the current financial year.

TELLEX
THE BROADCAST REPORTING SERVICE
REPORT

Sat 5
to see - Tony
Rowland on
"Today" 15/7.
RA.

LAKER VICTIMS TO BE PAID ?

RUSH

ORDER NO.: CON 31/38/03

For : DEPARTMENT OF TRANSPORT

TONY LINEHAN

Prog: TODAY

Service :

RADIO 4

Serial: 70948/ILC

Date: 15.7.85

Time: 0630

Duration:

4mins35secs

TELLEX
Monitoring

47 Gray's Inn Road, London WC1X 8PR Telephone: 01-4057151 TELEEX 27688

TODAY : RADIO 4 : 0630 : 15th July, 1985

0717

PETER HOBDAY:

Well, in the business world, the good news this morning is that those who lost out in the Laker collapse are to get their money back, the passengers and traders, up to £50,000. But the bad news, from the Government's point of view, is that the legal battle goes on with Sir Freddie yesterday refusing, as he termed it, to be put out to grass and accept a personal offer of £6 million. So, that could mean that the planned privatisation of British Airways could still be delayed further. And nor is Tiny Rowland, Freddie's partner after the collapse, too happy. He moved in, he told Graeme McLagan, because of a secret request by a Government Minister acting on Mrs. Thatcher's behalf.

TINY ROWLAND:

My...I got in touch with Freddie Laker, immediately I heard about his bankruptcy and he and I agreed to meet, and we saw each other at his solicitor's first of all, and then a day or two later we had meetings at a Government department for Government officials. And at one of these meetings, Freddie and I met a Minister, and this Minister asked me to, to lunch with him the following day, and he wanted to keep this lunch quiet, and, and suggested that he and I should go to a place where neither of us were known and he chose the Lounge Hotel. And at this...at lunch, he said to me...lunch went on for 2\ hours...he said to me "look, we want...that is, Government wants you to help Freddie", and he said to me that he'd asked me to lunch with him at the request of the Prime Minister, and he said that they...that was, his department and the Government would be happy and very, very grateful if we were to help to rehabilitate Freddie. And that's how it started.

GRAEME McLAGAN:

Why all the secrecy?

T.R:

I've no idea why there should have been any secrecy, because we, as far as we were concerned, there was no secret about it. Obviously, we were very much encouraged by...two of my colleagues at my office, that I had had this lunch, and that a Minister had asked me to, to, to help Freddie, and obviously we went ahead as quickly as we could.

G.M:

Well, you say you were asked to help, but why did you help, why did you get involved?

T.R:

Well, first, I thought that he'd been clearly wronged, and, and Freddie...I've known Freddie for some time, he's a, he's a, a great person, and it was the sort of business which we thought that Freddie, and with the support of Lonrho, could make a success of. So, it's...I was pleased to be encouraged by Government, especially with the Prime Minister's personal involvement, otherwise the Minister wouldn't have asked me to lunch with him, and, and, and we, once...we decided to go ahead.

G.M:

Would you have done this without that same encouragement?

T.R:

Well, that I can't...looking back, it's difficult for me to say now whether we would or would not have done it, but certainly it made a huge difference, and, and, and I think it may have been the deciding factor.

G.M:

Are you happy, Mr. Rowland, to name this Minister?

T.R:

Of course. It's Ian Sproat, the Minister for Aviation.

G.M:

Sir Freddie has been offered £6 million in compensation for the collapse of Laker Airways. Do you think that he should take

that money?

T.R.:

Well, obviously, I've been in touch with Freddie in the last day or two, we're still close friends, but, apart from friends, we also have an equal share in two businesses which suffered substantial losses because of Government action.

G.M.:

You're still threatening to sue various airlines. Now, are you serious about that, or is it a question of bluff?

T.R.:

When we talk about suing airlines or...we're certainly not bluffing, it's not our character it's not in our character to bluff.

G.M.:

These legal wrangles are, as you know, said to be holding up the privatisation of British Airways. Does that concern you?

T.R.:

Well, you know, they never bothered about us, when it came to stopping us from taking over, for instance, the House of Fraser. I'm totally indifferent and unconcerned about privatisation. That's not my business, that's Government's business, and, as far as I'm concerned, we're interested in getting an adequate compensation offer. Freddie Laker will not be content to take 6 or £7million. It's...he's been in the aviation business for 47 years, he's not going to accept redundancy pay, and, like an old stallion, be put to paddock and out to grass, that's not his style.

SUE MacGREGOR:

And that was Mr. Tiny Rowland, who knows him well.

** **

CONFIDENTIAL

203 AGV



10 DOWNING STREET

From the Private Secretary

15 July 1985

BRITISH AIRWAYS : LAKER LITIGATION

The Prime Minister has seen your letter to me of 12 July reporting that a settlement has been reached with the Laker liquidator. She has noted, however, that Sir Freddie Laker himself may decide to fight on.

The Prime Minister has asked me to record her appreciation for the substantial effort in Departments in Whitehall, our Embassy in Washington, British Airways and Linklater and Paines, which has been made to reach this settlement.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Attorney General and the Financial Secretary to the Treasury and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Richard Allan, Esq.,
Department of Transport.

CONFIDENTIAL

JK

CC NO
→ SC 131



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Prime Minister (2)

The liquidator's suit is now ended. Laker and
Beckman have until 20 August to decide whether
to take \$8 million each, or fight a separate
action. The reply from No 10 might express some
appreciation for the work of those
who have made this settlement
possible, e.g. FCW, Embassy, Washington, Top, DTE lawyers,
Law Officers, Treasury, Lushington and Paine, BA.

12 July 1985

Handwritten signature/initials

AT
12/7

Dear Andrew,

BRITISH AIRWAYS: LAKER LITIGATION

We have now heard that BA's efforts to reach a settlement of the Laker liquidator's case at last seem likely to be successful. BA have finally reached agreement with the other defendants and the creditors to the proposal described in my Secretary of State's minute of 3 July. This provides that the offer of \$8m to Sir Freddie Laker in return for release of all claims would remain open for a limited period (to 20 August); it will be withdrawn if in the meantime either he or Lonrho initiate any action in any court. It would be paid as soon as the defendants are finally committed to pay the ticket holders and other small creditors.

BA's lawyers will put these proposals to Judge Greene at 11.15am (Washington time) today. We may therefore expect to hear the outcome at about 6pm (UK time).

What he has now done
Statements attached

If the Judge approves the settlement, BA will issue a press release setting out in broad terms the structure of the settlement and its cost. This is estimated to be some \$48m: the offers of \$8m to Laker and \$8m to the liquidator's US lawyers would be on top of that. But BA's share of the full \$64m is expected to be some \$28m.

Ministers are bound to be asked to comment on the settlement and its consequences. I enclose a copy of notes which my Secretary of State intends to use: these have also been sent to our Embassy in Washington. My Secretary of State considers that it is important not to be drawn into comment on the details of the settlement, which are a matter for BA's commercial judgement, or into any discussion about the likely timetable for the privatisation of BA; and that it should be emphasised that the class actions remain to be settled.

Copies of this letter go to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the

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Secretary of State for Trade and Industry, the Attorney General
and the Financial Secretary to the Treasury, and to Richard
Hatfield.

Yours,
Richard.

R A ALLAN
Private Secretary

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SETTLEMENT BY BRITISH AIRWAYS OF THE LAKER LIQUIDATOR'S ACTION
(for use if the proposed settlement is approved by Judge Greene on
12 July)

LINE TO TAKE IN RESPONSE TO INQUIRIES

(a) HMG does not accept that international civil aviation should be subject to US anti-trust law, deplores the fact that all the defendants have found it necessary to pay such a high price to settle a case that should never have been brought; and will maintain its efforts to persuade the US administration to remove from the scope of the anti-trust legislation aviation matters which are regulated under the Bermuda 2 agreement.

(b) Nevertheless we understand that all the defendants (including some American airlines) have to do business in the USA, and they have judged it individually and collectively as being in their commercial interests to settle the case out of court. Settlement implies no admission of liability. [If pressed: HMG has been kept informed of the terms of the proposed settlement, but its approval as BA's shareholder was not required].

(c) The proposal represents an agreement between the parties. The liquidation still has to be sanctioned by the competent courts (in England and Jersey).

(d) Once the settlement is sanctioned, one of the major obstacles to privatisation will have been removed. That is not the end of the road: for instance BA, Pan Am and TWA still need to settle the class action against them, and progress on this is still at a very early stage.

(e) Hope to privatise BA as soon as possible. But cannot set a date yet. [NB: You should not be drawn on the possible timetable for settling the class action].

2. Following is some defensive question and answer briefing.

Q1. WHAT IS HMG DOING TO ENSURE THAT ANTI TRUST DOES NOT APPLY TO CIVIL AVIATION?

A1. HMG has had various discussions with the US administration but latterly has been holding back to await the outcome of the present attempts to settle out of Court. We will be looking for a resumption of discussions when they have been settled.

Q2. WILL BA BE PRIVATISED AS SOON AS THE CLASS ACTION IS SETTLED?

A2. Hope so, but don't know how long that will be. Other technical factors will need to be taken into account, eg finding a place in the Stock Exchange queue, allowing time for proper marketing.

Q3. NOW THAT A SETTLEMENT SEEMS CERTAIN WHY NOT INDEMNIFY BA AGAINST THE EXPECTED COST SO THAT PRIVATISATION CAN GO AHEAD AT ONCE?

A3. It is for BA to decide whether to settle litigation against them and on what terms, in the light of their commercial judgment.

Q4. DID HMG PRESS BA TO SETTLE WITH THE LIQUIDATOR TO ENABLE PRIVATISATION TO GO AHEAD?

A4. No. The directors of BA decided that it was in the company's commercial interest to seek a settlement at the present time, and that the terms finally obtained were acceptable.

Q5. HOW MUCH WILL THE SETTLEMENT COST BA? (ANY OTHER QUESTIONS ABOUT THE DETAILS OF THE SETTLEMENT)

A5. That is a matter for BA.

Q6. DOESN'T THE FACT THAT THE AIRLINES HAVE HAD TO PAY A LARGE SUM IN SETTLEMENT MEAN THAT THEY WERE GUILTY?

A6. No. The defendants have not admitted liability. One of the objectionable features of the US system is that most of the costs are not recoverable if the defence succeeds.

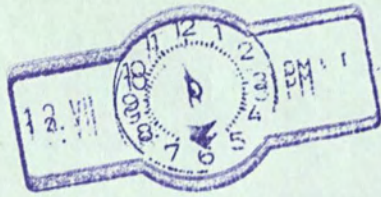
Q7. DO YOU THINK IT RIGHT THAT LAKER SHOULD BE OFFERED \$8M?

A7. It is deplorable that this case should have been brought and that any payments should have to be made. Who should be included in the settlement is for the commercial judgment of the defendants.

Q8. ARE LONRHO PART OF THE SETTLEMENT?

A8. As far as I am aware, Lonrho have no grounds for any legal action.

Aerospace: BA Pt 4



PS/SECRETARY OF STATE

cc:

PS/Mr Spicer Mr Ayling
Sir Peter Lazarus Mr Oates
Mr Knighton
Mr Clarke
Mr Stevens
Mr Fortnam
Mr Rhodes

LAKER SETTLEMENT

Attached is a copy of BA's press release announcing the settlement of the liquidator's case.

D

D HOLMES
12 July 1985

SETTLEMENT AGREED WITH LAKER LIQUIDATOR

British Airways announced today that an agreement had been reached with the Laker liquidator involving payments estimated at US\$48 million to the Laker creditors, which brings to an end the litigation brought by the liquidator against 12 defendants including British Airways. (Full list of defendants - see note.)

The settlement has been achieved with the co-operation of the liquidator, the major creditors and the other defendants and involves the 16,000 small creditors of Laker Airways being paid in full. These include 14,000 former Laker ticket holders and employees.

It is the wish of the defendants to see an end to all litigation arising from the collapse of Laker Airways. Therefore, in addition to the US\$48 million settlement with the liquidator an offer has been made to pay US\$8 million to Sir Freddie Laker in return for an acceptable release of all claims. If Sir Freddie Laker declines to accept the US\$8 million the settlement will nonetheless proceed.

The defendants have also offered the law firms of Beckman & Kirstein, and Metzger, Shadyac & Schwarz US\$8 million in full satisfaction of their fees, which they have declined to accept. The offer to the law firms remains open and the parties may ask the courts for assistance in resolving this issue.

Colin Marshall, Chief Executive of British Airways commenting on the settlement said, "Since early this year and in close co-operation with all the other defendants involved in the litigation, we have been exploring the possibility of an out of court settlement which would involve payment of only a small fraction of the total amount claimed. The high legal costs, which are not recoverable under any circumstances, the complexities of the litigation and the considerable time involved in pursuing this action through the courts made us conclude that every effort was necessary to reach a settlement. This is the normal course of action by companies involved in anti-trust actions in the USA where upwards of 90 per cent of cases are settled prior to trial.

m/f

"Settlement bears no admission of guilt. British Airways and the other defendants have denied throughout the Laker litigation and continue to deny that there was any attempt on our part to drive Laker Airways out of business or to breach US anti-trust laws.

"Ending the large degree of uncertainty is in the interests of all parties concerned in the long running saga over the collapse of Laker Airways.

"British Airways continues to explore the possibility of settlement of the class actions for the same reasons as apply in the Laker litigation."

NOTE

Defendants involved in the Laker litigation are:

British Airways
Pan American Airways
Sabena
UTA
TWA
KLM
SAS
British Caledonian
Swissair
Lufthansa

and McDonnell Douglas Corp.
McDonnell Douglas Finance Corp.



CE/NO

020
 Prime Minister ⁽²⁾

To note. There are advantages in making Laker and Beckman choose between a certain \$8 million and possibly more / possibly nothing.

MT
 3/7

BA: LAKER LITIGATION

You will recall that MISC 112 agreed that BA should attempt to reach a settlement of the Laker liquidator's action, on behalf of all the defendants, which included payments of \$8m each to Freddie Laker and Mr Beckman, who is counsel to the liquidator, and also to Laker, and also to Lonrho. In return Laker would be expected to drop all further claims, since unless he did, the liquidator might not be prepared to settle. The threat of further actions would continue to hold up BA privatisation.

BA have met a last minute problem in completing the settlement because Laker/Lonrho's and Beckman's demands have become progressively more extravagant, and while the US judge has shown sympathy for BA's efforts he cannot compel Laker/Lonrho and Beckman to compromise. The risk is that he may conclude that an out of court settlement is unattainable and allow the case and the discovery process to continue, with all that would entail.

BA have now worked out a possible way round the problem which might either bring Laker to settle, or at least isolate him. It appears that the liquidator may now be prepared to agree to a settlement leaving Laker out and inhibiting Beckman from acting for him or others in related suits. Whether or not Beckman is removed from the scene, the main risk of leaving Laker out is that he may continue to seek satisfaction of his claims by litigation, perhaps aided financially by Lonrho, rather than recognising the value of the \$8m offer made to him. The preliminary legal advice is that he would probably not be able to prevent the



liquidation being settled and that he would find it extremely difficult to mount or maintain a case after that. I am seeking further advice on how long it would take to see the end of any further litigation in these circumstances.

Settling the case in this way is less certain than a firm assurance that further claims will be dropped. But it is in my view greatly preferable to watching the case drag on to an uncertain conclusion. The risk of delaying privatisation if Laker is left out remains with us while the case is unresolved. To settle the liquidator's action would remove one major cause of difficulty. I have therefore concluded that we should agree to BA seeking to settle without Laker. The offer would remain open to him if he dropped all further claims, at least for a limited time.

Such a course of action is subject to the following conditions:-

- (a) the liquidator and the other defendants are willing to settle on this basis;
- (b) confirmation by our legal advisers that Laker would have little prospect of making a fresh law suit run;
- (c) endorsement by the BA Board that such a settlement would be in the Company's commercial interests.

I have asked for the legal position to be investigated more closely. There is likely to be a further hearing before Judge Greene on 8 July, and I thought that you and colleagues would wish to be kept informed that a settlement on these terms might be concluded.



I am copying this minute to the members of MISC 112 and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of stylized initials 'NR' followed by a flourish.

NICHOLAS RIDLEY
3 July 1985



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PRIME MINISTER

MISC 112

British Airways: US Litigation and
Privatisation

BACKGROUND

- Flag A - MISC 112 on 6 March authorised continued negotiations to reach an out of court settlement of the Laker liquidator's case against British Airways (BA) and other airlines. You and other Ministerial colleagues subsequently approved the main elements of the settlement proposed in the Secretary of State for Transport's minute to you of 3 May. These involved total costs of \$65 to \$70 million, of which BA would pay about half. Of the total amount, \$8 million, would go to Sir Freddie Laker himself, and \$8 million to the liquidator's US lawyer.
- Flag B
- Flag C - Mr Ridley's further minute of 4 June reported that there was a fair prospect also of settling the so called class actions brought by lawyers on behalf of aggrieved transatlantic travellers at a more modest cost than had been feared.

2. Ministers had hoped that once these two cases had been settled, the main obstacle to the privatisation of BA would have been removed. Nevertheless it has always been recognised that there was still a risk of further anti-trust litigation against BA in the US, on grounds not directly connected with the Laker bankruptcy. BA's US lawyers have now reviewed the evidence which might be used to support such litigation, and have advised that there could be difficulty in going ahead with privatisation until three years had elapsed after the settlement of the current cases.

3. The next hearing of the Laker case is scheduled for tomorrow, 27 June. The outstanding issues are the payment to be made to the liquidator's US lawyer, and the further claim which Lonrho are now



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threatening to make. In view of the possibility of delay in privatising BA, which would not be entirely straightforward to explain, Mr Ridley has asked for this meeting of MISC 112 to reconsider whether BA should continue to pursue out of court settlements of the two current cases. If Ministers decided that the cases should instead be fought, some further obstacles could then be placed in the way of the proposed settlement of the Laker case at tomorrow's hearing in Washington (3 pm Washington, 8 pm London time).

MAIN ISSUE

4. The immediate issue is whether or not an out of court settlement of the two cases should still be pursued. Although the possible postponement of privatisation (which was expected to realise around £1 billion gross in 1985-86) has wider implications for the Government's economic strategy, there is no need for any immediate decision about the term of the postponement or the reasons which might be given for it.

Disadvantages of settlement

5. The argument against continuing to pursue settlement of these cases may be summarised as follows:

- (i) the UK does not accept the validity of the claims against BA and other airlines, and it is therefore objectionable that public funds should be paid to claimants like Sir Freddie Laker and Mr Beckman (the liquidator's lawyer);
- (ii) if the airlines pay out money on these cases, this will serve to encourage yet further claims against them;
- (iii) continuation of the litigation would provide an explanation for the postponement of privatisation.

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The counter-arguments

6. Leaving aside privatisation, all the arguments which previously persuaded Ministers to approve the attempt to reach settlements of these cases still apply:

(i) if the litigation continues, documents will inevitably be 'discovered', which will expose BA and British Caledonian (B. Cal) to further civil claims, and might also make it difficult for the US Department of Justice to avoid restarting the criminal proceedings (now also involving B. Cal) which were suspended on President Reagan's instructions last December;

(ii) it is almost inconceivable that the present package negotiated with other airlines and all the various creditors could be reconstructed if the settlement does not go ahead, and any alternative arrangements would almost certainly cost BA more;

(iii) continuing litigation would be extremely expensive in itself, and also absorb a great deal of management effort;

(iv) there would be great difficulty in explaining why BA had changed their attitude to settlement of the outstanding litigation.

7. The Directors of BA remain firmly of the view that the settlement should be pursued. Once this has been achieved, and provided no further litigation is in prospect, the way will be open to BA to dispose of documents in the US which are not strictly required to be retained for the purposes of the continuing business or as evidence in outstanding litigation. In the circumstances, it is unlikely that the Directors of BA would readily accept a Government request not to pursue the settlement; they might argue that such a course would be



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inconsistent with their duties under the Companies Act towards BA PLC.

Alternative courses

8. If settlement were not to be pursued, the question would arise how the problem created by the litigation was to be resolved, and more generally how the difficulties arising from the application of US anti-trust law to international airline traffic were to be overcome. Among the possibilities are:-

(i) to seek arbitration under the Bermuda II Agreement, and seek to have the litigation adjourned until the arbitration process had been completed. But the outcome of the arbitration could not be relied on, and there would be no way of ensuring that the litigation was postponed (Bermuda II has never been ratified by the US, and so is not part of US law);

(ii) to put pressure on the US to change the application of anti-trust by withdrawing from the Bermuda II Agreement. But this would be likely to be much resented by the Administration, which considers that it has already given substantial help to the UK by halting the criminal proceedings. Moreover, even if the Administration could be convinced that changes were needed in the application of anti-trust in order to make possible the continuation of normal air services between the US and the UK, it is far from clear that Congress would fall into line.

Altogether no alternative approach appears open to the UK which offers a reasonable prospect of settling the outstanding problems at less cost to the public purse than pressing ahead with the out of court settlements already contemplated by Ministers.

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Implications for privatisation

9. The US lawyers' view seems to rule out early privatisation. But it is only preliminary and the Department of Transport have asked them to indicate more precisely who the plaintiffs might be in any further litigation, what circumstances could give rise to complaints, and what damages might be awarded against BA. It may be that the risks will be found, on further examination, to be containable within reasonable limits. The question would arise, if relatively early privatisation were to go ahead, how these could be accommodated; an indemnity from HMG does not appear to be a satisfactory solution, since apart from the contingent cost, explaining it would itself constitute an incitement to litigation. Attempts should therefore continue to find a satisfactory way round this difficulty. Once the present litigation is out of the way, and BA have had an opportunity to take action to reduce potential future problems arising from the discovery of documents, it is possible, though not certain, that legal advice about early privatisation might become more encouraging.

The lawyers have generally been too permissive on the costs & settlements, if not on the time taken.

HANDLING

10. You will wish to invite the Secretary of State for Transport to explain the circumstances which have led him to ask for the meeting, and to put his recommendation to the Group. The Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry and the Attorney General will all wish to give their views on the best course of action for BA and the UK Government.

CONCLUSIONS

11. You will wish to reach conclusions on:

- (i) whether or not BA should continue to pursue out of court settlements of both the Laker liquidator's action and the class actions on the basis that Ministers have already approved;

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(ii) if not, what alternative approach should be adopted to resolve the problems created by the litigation and by the application of US anti-trust law to international air traffic.

J B UNWIN

CONQUEROR
III
LONDON

Cabinet Office
26 June 1985

**British
Airports**

File

Head Office, British Airports Authority, Gatwick Airport, Gatwick, West Sussex RH6 0HZ

Telephone: 0293-517 755--Telex: 877995 BAA, HQ G
Direct Number: 0293-595 200 International Code: +44293

Chairman Sir Norman Payne CBE

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

R13/6

12 June 1985

Dear Prime Minister

Before the debate on Monday 17 June, I thought you would like to have a copy of the Authority's public reaction to the Airports Policy White Paper.

Yours sincerely

Norman Payne

Enc

June 1985

STANSTED GO-AHEAD "EXCELLENT NEWS FOR AIR TRANSPORT INDUSTRY"

Sir Norman Payne, Chairman of the British Airports Authority, described the Government's go-ahead for the development of Stansted as "excellent news for the British air transport industry." He also welcomed the announcement that the BAA is to be privatised as a single entity.

Sir Norman said: "Both decisions will help keep Britain where it belongs, right at the forefront of world aviation, giving our airline and passenger customers the space and service they need."

Of the Stansted decision, Sir Norman said:

"It is one for which the BAA has striven long and hard because we believed it was the only way of meeting our duty to provide enough airport capacity in time to meet demand.

"It also puts an end to 25 years of uncertainty and gives the air transport industry the foundation for its development into the next century.

"Now we can face the future with confidence. It is excellent news for the industry."

On Heathrow, Sir Norman said:

"While planning permission has been refused for Uttlesford District Council (an Essex local authority) we do have the green light to start studies to remove the Perry Oaks sewage works and examine the problems of road and rail links to a possible fifth terminal.

"To avoid any undue delay we have agreed with the Thames Water Authority, owners of the Perry Oaks site, about the best way to proceed.

"We think there should be further studies into possible alternative sludge disposal sites and also into the removal of 1½ million tons of sludge that have accumulated on the site over the years."

"We shall now appoint consultants to carry out studies for us and we hope to have these reports by early next year."

PRIVATISATION

Sir Norman welcomed the Government's decision to privatise the BAA as one unit.

He said "This makes an early and successful flotation possible. It paves the way for new business opportunities, and will enable us to go to the capital markets for investment funds.

"As a result we will be able to respond more flexibly to the needs of our customers in meeting consumer demands. Furthermore it will enable our staff to participate in the fortunes of the business by owning shares. That is a just reward for their hard work and commitment in working together to secure the BAA's future success."



cc file DA
C/Ex FST
FCS CO
DTI
AH Gen

10 DOWNING STREET

From the Private Secretary

12 June 1985

Dear Richard

LAKER: ATTEMPTED SETTLEMENT

The Prime Minister has seen your Secretary of State's minute of 4 June and is content that a settlement to the class actions should be sought along the lines proposed.

I am copying this letter to Private Secretaries to members of MISC 112 and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

Richard Allan, Esq.,
Department of Transport.

SS

PRIME MINISTER

On the Laker action an offer of \$65 million has been made. Laker's lawyer, Backman, is arguing for more on the grounds that a contingency lawyer's fee should be x% of the loss to creditors not x% of what was finally settled. He is probably being too greedy and a settlement still looks probable.

This letter refers to a proposed settlement of the class action. BA and the Department think this is a good outcome. FCO and Treasury are content. Content also?

Lonrho announced yesterday a new action of their own. Mr Ridley is considering the implications. There may come a point where we have to press on to privatisation, with BA fighting the actions, otherwise all sorts of bloodsuckers will be attracted.

AT

ANDREW TURNBULL

11 June 1985

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① DAT
② DTF

CC NO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Murdo Maclean Esq
Private Secretary to
The Chief Whip
House of Commons
LONDON SW1A 0AA

11 June 1985

Dear Murdo,

DEBATE ON AIRPORTS POLICY, MONDAY 17 JUNE

Chris Roberts suggested that I should write to propose a precise form of words for the Government's Motion on airports policy which is to be debated in the House on Monday 17 June. My Secretary of State suggests that the Motion should be:

"That this House approves the Government's White Paper on Airports Policy, Cmnd 9542."

This corresponds closely with what Mr Biffen said about the form of the debate in Business Questions on 6 June, following discussion in Cabinet earlier that day.

I understand that you will be arranging for the Motion to be put down tomorrow or Thursday; and that it is now settled that the Debate will run until midnight.

We have heard from Lord Denham's office that there is some pressure for the Lords Debate on Airports Policy to take place in July rather than in the autumn as had previously been suggested. My Secretary of State would welcome an early debate in the Lords. The wording of the Motion in the Lords can be decided nearer the time, in the light, inter alia, of reactions to the Commons Debate.

I am copying this letter to Tim Flesher at No 10, Alison Smith in the Lord Privy Seal's office, David Beamish in Lord Denham's office and to Neil Kinghan in Mr Gow's office.

Yours,
Richard.

R A ALLAN
Private Secretary

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FCS/85/169

SECRETARY OF STATE FOR TRANSPORT

Laker: Attempted Settlement

1. Thank you for copying to me your minute of 4 June to the Prime Minister recommending that we accept the terms now on offer to British Airways and the other co-defendants for settlement of the class actions.
2. I agree that better terms are unlikely to be negotiable and that we should therefore accept them. The sooner we can wind up the civil action in the Laker case the better, not least for the civil aviation relationship between the United Kingdom and the United States.
3. I am copying this minute to the Prime Minister and the other members of MISC 112 and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe'.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
10 June 1985

Aerospace : BA H4

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file



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON
SW1

5 June 1985

Dear Andrew,

AIRPORTS POLICY: DECISION LETTERS AND WHITE PAPER

/ I enclose copies of the White Paper
/ on Airports Policy, and of the decision
letters on the Heathrow and Stansted
planning applications, which are being
published this afternoon.

I am sending copies of this letter
and of the enclosures to the Private
Secretaries to all members of the Cabinet,
to the Private Secretaries to the Attorney
General, the Chief Whip, the Paymaster
General, the Financial Secretary, the
Minister for Housing and Construction*
and the Parliamentary Under Secretary
of State for the Armed Forces* and to
Richard Hatfield.

Yours, Richard.

R A ALLAN
Private Secretary

* without enc.

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Departments of the Environment and Transport

Eastern Regional Office

Charles House 375 Kensington High Street London W14 8QH

Telephone 01-603 3444 ext

Messrs Jameson and Hill
6/7 Evron Place
HERTFORD
Hertfordshire
SG14 1PA

Your reference

RAJ/KLD/82200
Our reference

APP/4950/3
Date

5 June 1985

Gentlemen

TOWN AND COUNTRY PLANNING ACT 1971 - SECTION 35
APPLICATIONS BY UTTLESFORD DISTRICT COUNCIL FOR PERMISSION TO CONSTRUCT A FIFTH
TERMINAL AT HEATHROW AIRPORT

1. I am directed by the Secretary of State for the Environment to say that consideration has been given to the report of the Inspector, Mr Graham Eyre QC, who held a public local inquiry into the two applications which your clients, Uttlesford District Council, made respectively to the London Borough of Hillingdon and Spelthorne Borough Council for outline planning permission for the extension of Heathrow Airport to provide a new passenger terminal complex (approximate annual capacity 15 million passengers) and associated facilities and works, on land east of Stanwell Moor Road, Perry Oaks, including some airport land and land at Perry Oaks Sludge Disposal Works and Burrows Hill Close Estate. The Secretary of State for the Environment directed in pursuance of section 35 of the Town and Country Planning Act 1971 that the applications be referred to him for decision instead of being dealt with by the local planning authorities.

2. The Secretary of State in a statement issued under Rule 6(1) of the Town and Country Planning (Inquiries Procedure) Rules 1974 identified the following points as likely to be relevant to his consideration of these applications (the Heathrow applications):

- a. the need for the new terminal and associated developments; the necessity for these to be at Perry Oaks as opposed to any alternative location which may be put before the inquiry;
- b. the implications of the development for the existing facilities at Heathrow;
- c. the implications of the development for:
 - (i) employment
 - (ii) housing and associated development and services
 - (iii) road traffic and public transport, particularly in the West London traffic corridor
 - (iv) safety;
- d. the effects of additional noise and pollution arising from construction work and from the use of the terminal and associated developments;

- e. the effect of the proposal on the Green Belt and existing land uses;
- f. the visual impact of the development;
- g. the possibility that further development may be proposed in the longer term.

3. The Heathrow applications were considered at the second stage of The Airports Inquiries 1981 - 83, held between 11 January and 5 July 1983 at the Crest Hotel, Heathrow. The first stage of The Airports Inquiries was held between 29 September 1981 and 28 October 1982 at Quendon Hall, Quendon, Essex. This was concerned with various applications and orders submitted in pursuance of proposals by the British Airports Authority for the expansion of Stansted Airport. The Stansted applications and orders are the subject of a separate decision letter which is being issued at the same time as this decision.

4. A copy of the Inspector's Report was sent on 10 December 1984 to you and to every person who was a party at the inquiry. This was accompanied by a document which comprised extracts from the Report, including the Inspector's conclusions, and all of his recommendations.

5. Careful consideration has been given to all the arguments put forward on behalf of the applicants, the local planning authority and other parties and to the Inspector's conclusions and recommendations on each of the applications dealt with in this letter. Since the inquiries closed, the Secretary of State has received a large number of representations relating to the proposal for a fifth terminal at Heathrow and there have been two Parliamentary debates. All the representations, and the Hansard reports of the debates, have been considered. Nothing in them appears to the Secretary of State to constitute new evidence, or to raise a new issue which needs to be referred to the parties, before he proceeds to a decision. Nor does anything in them dispose the Secretary of State to take a view on the matters before him different from that which he would otherwise have taken.

INSPECTOR'S CONCLUSIONS AND RECOMMENDATIONS

6. Whilst acknowledging the difficulty of compressing the 62 Chapters of the Report into a short summary, the Inspector provided a Summary of Overall Conclusions in the Introduction to the Report. This summary is reproduced in full at pages 9 - 13 in the extracts from the Report which were circulated to the parties.

7. In Chapter 47 of the Report the Inspector addressed himself to the points listed in the Rule 6(1) statement referred to in paragraph 2 above. These are in the main still relevant to consideration of the Heathrow applications. The Inspector also commented in the same Chapter on certain other matters which were not covered by the points identified in the Rule 6(1) statement, but which emerged during the Heathrow stage of the inquiries.

8. Although the Inspector did not refer in Chapter 47 of the Report to the implications that the development of a fifth terminal at Heathrow would have for regional strategy, Chapter 3 of the Report dealt at length with the issue of 'Regional Planning and Policy in the South East'. He concluded, inter alia, in paragraphs 5.5 and 5.6 of Chapter 3 that the development of a fifth terminal at Heathrow would have no significant implications for regional strategy and the relevant important elements of policy would and should remain intact, and that there was no justification for the rejection of the development of a fifth terminal on regional planning grounds.

9. In paragraph 6.6 in Chapter 39 of the Report the Inspector questioned whether the proposed site could provide a wholly satisfactory passenger terminal in terms of layout and access. In paragraphs 4.9 and 4.10 of Chapter 49 the Inspector contrasted these disadvantages with the potential advantages of wider territorial expansion on the western side of Heathrow.

10. The Inspector examined and analysed the individual elements of air traffic demand and airport capacities in Chapters 4-8 of the Report. In Chapter 52 in Part VI of the Report he set out his broad judgements in respect of demand and capacity in the London airports system. In Part VI of the Report the Inspector also set out his views on a coherent long term strategy for the provision of airport capacity in the South East and on the most appropriate future development of Heathrow in that context. The Inspector made the following formal recommendations on the Heathrow applications in Chapter 62:

"I recommend that the two applications made by UDC for outline planning permission for the extension of Heathrow Airport to provide a new passenger terminal complex (approximate annual capacity of 15 million passengers) and associated facilities and works on land at Heathrow Airport, Perry Oaks Sludge Disposal Works and Burrows Hill Estate be refused.

I further recommend that immediate Government and other action be taken to ensure that the Perry Oaks sludge treatment works is removed and that the site of the works together with other necessary land, including land to the west of the A3044 up to the boundary of the M25, be taken into Heathrow Airport with the objective of providing a fifth passenger terminal complex and other important airport development with direct access to the motorway as soon as possible."

11. The Inspector also made recommendations as to additional measures: those in relation to Heathrow are contained in Chapter 58 of his Report, and those of a general nature contained in Chapter 59. Many of these recommendations, together with the Inspector's conclusions and formal recommendations in relation to the Heathrow applications, are considered in the next section of this letter under the headings of items set out in the Rule 6(1) statement. In the Secretary of State's opinion, however, some of the Inspector's formal recommendations and most of those in Chapters 58 and 59 raise issues that go beyond the Heathrow applications and cannot be dealt with satisfactorily in that context. The Secretary of State for Transport will take these into account in his consideration of airports policy generally.

CONSIDERATION OF THE INSPECTOR'S CONCLUSIONS AND RECOMMENDATIONS

The need for the new terminal and associated developments; the necessity for these to be at the Perry Oaks site (Chapter 37, Conclusions paragraphs 6.3 - 6.8; Chapter 47, paragraphs 2.1 and 3.4-3.6; Chapter 52, Conclusions paragraphs 6.1 - 6.5; Chapter 58, paragraphs 2.1-2.3).

12. In relation to demand and capacity in the London airports system, the Inspector concluded in paragraphs 6.1-6.5 of Chapter 52 that:

- "6.1 It would be prudent to ensure that additional passenger terminal capacity should be available no later than 1990/1991.
- 6.2 There should be a capability for an additional capacity of at least 10 mppa by the mid 1990s.

- 6.3 There should be a further capability for capacity which would ensure a total addition of at least 20 mppa by the end of the century.
- 6.4 To ensure that demand could, if necessary, be met well into the 21st century, there should be a further capability of another 20 mppa capacity.
- 6.5 A long term strategy for the London area airports should be based on the requirement for a capability to accommodate an addition to existing and planned passenger capacity of some 40 mppa in order that need could be met before and after the year 2000 as, when and if it arises."

The Secretary of State accepts the validity of conclusions 6.1 and 6.2. He also appreciates the value of the Inspector's effort to set out a long term strategy for the London airports system area, in order to create as much certainty for the future as possible. The Secretary of State considers that it is not possible to view demand forecasts beyond the mid 1990s with the same degree of certainty as those for 1990/95, and the Inspector's conclusions 6.3, 6.4 and 6.5 must therefore be more conjectural. He agrees, however, that the evidence that has been submitted to the Inspector on the issues of passenger demand and terminal and runway capacity does point to the conclusion that there will be a need for additional airport capacity in the south east beyond the mid 1990s. It is the Secretary of State's view that this is a need which ought to be met, but that other important considerations must be given full weight. The Inspector envisaged complementary roles for Stansted and Heathrow in meeting the need, with development taking place at Stansted in the first instance, so as to provide additional terminal capacity in 1990 or shortly thereafter, to be followed by a fifth terminal at Heathrow to provide further capacity by the second half of the next decade. The Secretary of State agrees with the Inspector that the only scope for expansion in the very constricted environs of Heathrow would be on the western side of the airport where the Perry Oaks sludge works are at present located; and there is no assurance that further terminal capacity could be provided there by 1990 or shortly thereafter. It is noted that the Inspector considered that the Perry Oaks site alone - as proposed in the applications - could not provide sufficient additional land for development and that land to the west up to the M25 should also be taken within the airport's boundaries. The Secretary of State is satisfied that a study should be undertaken of the possible ways in which the Perry Oaks site might be made available for airport use.

Implications for the existing facilities at Heathrow (Chapter 39, Conclusions paragraphs 6.4-6.6 and 6.12; Chapter 47, paragraph 2.2).

13. In Chapter 39 and in paragraph 2.2 of Chapter 47 of the Report the Inspector considered the operational implications of Uttlesford District Council's proposal on the existing airport facilities. The Secretary of State agrees with the Inspector's conclusions in paragraphs 6.4-6.6 and 6.12 of Chapter 39; and he is satisfied that the findings in paragraph 2.2 of Chapter 47 are supported by the evidence that was before the Inspector. Although he recognises that the development applied for would give rise to the layout difficulties referred to in paragraph 5.19 of Chapter 39, the Secretary of State is of the opinion that a fifth terminal at Perry Oaks ought not to have adverse consequences for any existing facilities at the airport but should rather reduce pressure upon them.

Implications for employment and for housing and associated development and services (Chapter 44, Conclusions paragraphs 7.1 - 7.3; Chapter 45, Conclusion paragraph 5.1; Chapter 47, paragraphs 2.3 and 2.4).

14. It is noted that in his commentary in Chapter 44 of the Report, which deals with the employment implications of providing a fifth terminal at Heathrow, the Inspector stated that the parties readily acknowledged the difficulties in making long-term predictions involving such unknown, but fundamentally influential, factors as the future composition and handling of air traffic. It is agreed that the employment forecasts presented at the Heathrow stage of the Inquiries provide no more than a general indication of future employment levels and ought therefore to be treated with caution. The approach adopted by the Inspector in analysing these forecasts is accepted and the conclusions he reached are agreed. In the view of the Secretary of State the balance of the evidence suggests that the employment consequences, in relation to the available labour supply, of a fifth terminal at Heathrow would be slight.

15. There was a marked reluctance by the parties at the inquiry to attempt quantification of the extent of urban growth likely to result from a fifth terminal at Heathrow. The Inspector in his commentary on the subject, in Chapter 45 of the Report, expressed the belief that he could make a judgement on the basis of material before him as to the scale of the additional requirement for dwelling houses. He arrived at a figure of 5,200 dwellings likely to be required as a result of the provision of a fifth terminal. The Secretary of State sees no reason to question the Inspector's approach on this matter, nor would he dispute his figures. He accepts the Inspector's view that a requirement of some 5,000 dwellings was small when considered in the context of the area within which it was assumed most of the airport workers would live, which would have a dwelling stock of the order of some 800,000 dwellings in the mid 1990s. However, housing would not be the only factor having a bearing on urban growth. Any further major development at Heathrow would give rise to other commercial buildings, offices and hotels in the surrounding area. There would also be road traffic and public transport implications, which are considered in paragraphs 16 and 17 below. The Inspector's conclusion that the urban growth associated with a fifth terminal would be very small and easily accommodated without deleterious consequences of any kind may therefore understate the planning problems in the area.

Implications for road traffic and public transport particularly in the West London traffic corridor (Chapter 38, paragraphs 10.23-10.39 and Conclusions paragraphs 11.1 - 11.13; Chapter 47, paragraphs 2.5-2.10; Chapter 58, paragraphs 2.4-2.9).

16. At the Heathrow stage of the Inquiries much time was spent on the problems of surface access to the airport. A great deal of written evidence was submitted to him on the matter. The Inspector analysed the question of surface access to Heathrow in considerable detail in Chapter 38 of the Report. In doing so he drew upon the work of the Heathrow Surface Access Group (HSAG) on which the main parties were represented. In his commentary in section 10 of Chapter 38 the Inspector stated that he was primarily concerned to address the following questions:

- (i) if a fifth terminal were developed at Heathrow would the transportation implications in terms of the highway network and public transport be so adverse that a proposal to expand the airport beyond four terminals should be rejected on grounds relating to surface access?

- (ii) in the event of the development of a fifth terminal what steps could and should be taken in the context of a proper provision of surface access?
- (iii) in relation to the applications to develop a fifth terminal at Heathrow currently before the Inquiries are the proposals for direct access to the development satisfactory?

The Inspector concluded that the answer to question (i) was 'No' (paragraph 10.23, Chapter 38). He considered, however, that this answer was not an end of the matter but was linked to the answer to question (ii). In answering question (ii) (paragraphs 10.24-10.38, Chapter 38) the Inspector put forward a number of suggestions including highway improvements which he considered to be essential, the extension of the Piccadilly underground line, the provision of a rail link and the setting up of a working party by the Department of Transport to investigate these matters. In answer to question (iii) (paragraph 10.39, Chapter 38) the Inspector recommended that even if Uttlesford District Council's applications were to be considered acceptable in all other respects, planning permission should not be granted because it had not yet been demonstrated that satisfactory access could be gained to the proposed new terminal.

17. The Secretary of State notes the Inspector's conclusions about traffic conditions on the highway network in the Heathrow area and along the M4/A4 corridor. The Secretary of State accepts that improvements are desirable. He also accepts that the means of direct access suggested in Uttlesford District Council's proposal for a fifth terminal is unsatisfactory, and this alone would justify rejecting Uttlesford's applications. The Secretary of State notes the Inspector's recommendation in paragraph 2.7 of Chapter 58 that a Working Party should be set up by the Department of Transport with the aim of examining possible improvements to the highway network and identifying and exploring other courses of action for the mitigation of any unsatisfactory conditions, whether or not a fifth terminal is built. The Inspector also made recommendations about improvements in rail access. These matters are under consideration by the Secretary of State for Transport.

Air Traffic Services and the Implications for Safety and Defence Interests
(Chapter 40, Conclusions paragraphs 7.1 - 7.4; Chapter 41, Conclusions paragraphs 3.1 and 3.2; Chapter 47, paragraphs 2.11 and 3.7; Chapter 58, paragraphs 2.10 and 2.12; Chapter 59, paragraphs 2.16 and 2.17).

18. In Chapter 40 of the Report the Inspector concluded that the provision of a fifth terminal at Heathrow would present few, if any, problems in relation to air traffic services (ATS) and he stated that overall he did not believe that aircraft accident risk was a significant factor. The Secretary of State agrees that provision of a fifth terminal would not give rise to significant ATS problems and he accepts that its operation would not increase accident hazards to any material extent. The Secretary of State notes the Inspector's comments in paragraph 6.6 of Chapter 40 about minimising the number of people in those parts of the public safety zones (PSZs) close to the runway ends. Government policy already seeks to achieve this. However, decisions on development in PSZs are, in the first instance, for the local planning authorities, who are obliged to take advice from the CAA. The procedure is set out in DOE Circular 39/81, "Safeguarding of Aerodromes, Technical Sites, and Explosives Storage Areas - Town and Country Planning (Aerodromes) Direction 1981". The Inspector also expressed concern about the risk of injury from falling tiles coming from damage to the roofs of buildings in the areas under the immediate approaches to

Heathrow, caused by aircraft vortices; and he recommended the extension of the areas covered by the British Airport Authority's vortex damage insurance scheme, an examination of the practicability of securing loose tiles, and further research into the whole problem of vortices. The Secretary of State notes what the Inspector said. The matter is one for consideration by the British Airports Authority in the first instance. As regards defence, the Inspector concluded in Chapter 41 of the Report that the expansion of Heathrow by the development and operation of a fifth terminal would have no effect on defence interests. It is noted that the Inspector based this conclusion on advice received from the Ministry of Defence.

Air Noise (Chapter 42, Conclusions paragraphs 10.1-10.5; Chapter 47, paragraphs 2.13-2.15 and 3.3; Chapter 58, paragraphs 2.11, 2.13-2.16 and 2.18; Chapter 59, paragraphs 2.1-2.14).

19. The Inspector considered questions of air noise in Chapter 42 of the Report. The Inspector stated in paragraph 1.2 of Chapter 42 that in assessing the air noise implications of a fifth terminal at Heathrow, he was concerned to answer three questions, namely:

- (a) would a fifth terminal add to the noise burden?
- (b) would a fifth terminal delay the expected improvement in the noise climate at Heathrow?
- (c) if (a) and/or (b) were answered affirmatively, would such increase and/or delay be acceptable?

The Inspector heard evidence on the noise certification of aircraft, the noise and number index (NNI), NNI contours at Heathrow, the impact of noise, the effect on noise sensitive buildings, the comparative noise impacts of on the one hand the construction of a fifth terminal at Heathrow and on the other the development of Stansted, and ameliorative measures. Some of the general air noise matters raised at the Heathrow stage of the inquiries were also raised at the Stansted stage. Having examined all the matters put to him, the Inspector expressed himself wholly satisfied that the development and operation of a fifth terminal would not have a perceptible effect on the noise climate in the Heathrow area, nor would it delay the improvement that is already taking place in any way that would be discernible to those affected by air noise from Heathrow. The Inspector concluded that it would be unjustifiable and unwarranted to reject the development of a fifth terminal on grounds relating to noise. The Secretary of State agrees with these conclusions. On the question of the earlier proposal to impose a limit of 275,000 atms at Heathrow, the Inspector concluded that it would have no perceptible effect on the noise climate but would limit the valuable resource of runway capacity for no significant environmental or social gain. This question is, however, one which falls to the Secretary of State for Transport to consider within the context of airports policy generally. Nevertheless, the Inspector concluded that the present noise climate in some areas around Heathrow was worse than people should be required to accept and that means of mitigating the consequences of air noise must be vigorously pursued whether or not a fifth terminal was developed. To this end the Inspector made a number of recommendations, most of which are concerned in one way or another with airport operations, and are thus for the Secretary of State for Transport to take into consideration. Two of the recommendations in Chapter 59 are, however, for the Secretary of State for the Environment to consider: 2.9 (Clarification of advice in Department of Environment Circular 10/73) and 2.14 (Reconstitution of the Noise Advisory Council). On the first, Circular 10/73 is already being revised; on the second, the Secretary of State has indicated by way of a Written Parliamentary Answer (Hansard 4 April 1984, Col.552) that he does not intend to reconstitute the Noise Advisory Council.

20. The Secretary of State accepts the Inspector's view in paragraph 9.19 of Chapter 42 that when all relevant factors are taken into account the effect of a fifth terminal at Heathrow compared with a four terminal airport would be to increase NNI values by approximately one NNI unit in some areas. This would have a minimal effect on the future improvement of the noise climate. As to the numbers of people likely to be affected by the development, the Secretary of State shares the Inspector's caution about trying to estimate this with undue precision and agrees with him both that the numbers of people within the 35 and 55 NNI contours would fall substantially whether or not a fifth terminal were built and that the differential effect of a fifth terminal would be very small when compared with the numbers suffering such noise levels now.

Ground Noise (Chapter 43, Conclusion paragraph 10.1; Chapter 47, paragraph 2.16; Chapter 58, paragraph 2.17).

21. Although air noise will always be dominant as regards the overall noise climate at Heathrow, ground noise will also continue to be important. In Chapter 43 of the Report the Inspector agreed with the conclusion reached by three of the main parties who submitted evidence on the subject, that with the segregated mode of runway operation, the ground noise impact of a fifth terminal sited at Perry Oaks would be barely perceptible even at the sites most affected. The Secretary of State accepts that the applications site is well located from the point of view of minimising ground noise although protection measures would still be necessary. The Inspector made recommendations regarding the supply of electrical power and air to points on the terminal aprons; penalties and/or restrictions on the operators of aircraft using auxiliary power units; the prohibition of unattenuated running of engines at full power at a fifth terminal; and the need for acoustic protective screens and banks and for protection measures to mitigate construction noise. These recommendations are mainly concerned with the operation of the airport and are consequently matters for the Secretary of State for Transport to consider.

Pollution (Chapter 46, Conclusion paragraph 7.1; Chapter 47, paragraph 2.17; Chapter 59, paragraph 2.18).

22. In Chapter 46 of the Report the Inspector indicated that at the Heathrow stage of the Inquiries he received no technical evidence on the subject of pollution. He observed that the sole issue before him on this subject was whether a five terminal airport at Heathrow would give rise to significantly higher levels of atmospheric pollution than an airport with four terminals. In the Secretary of State's opinion the Inspector is correct in his belief that this would not be the case. The operation of a fifth terminal would not add significantly to the smell of unburnt or partially burnt kerosene in the vicinity of the airport. Moreover, as the Inspector pointed out, when new standards for aircraft engine emissions, which have been formulated by ICAO and USFAA, are implemented there should be an improvement. The Secretary of State agrees with the Inspector's recommendation that efforts should be made to mitigate the nuisance of fuel odours which affect people living and working in the vicinity of airports, and notes that the Secretary of State for Transport intends to introduce legislation on aircraft fuel venting and smoke in line with the recommendations made by the ICAO Committee on Aircraft Engine Emissions.

Effect of the proposal on the Green Belt and existing land uses (Chapter 46, Conclusions paragraphs 7.1 - 7.3; Chapter 3, Conclusions paragraphs 5.1, 5.5 and 5.6; Chapter 47, paragraphs 2.18 and 2.19; Chapter 58, paragraph 2.20).

23. In his conclusions in Chapter 46 of the Report, the Inspector said that the development of a fifth terminal on the applications site would be of little consequence so far as Green Belt and existing land uses were concerned, and that the site formed part of an area that was particularly suitable for airport development. The Inspector concluded in Chapter 3 of the Report that the development of a fifth terminal would not have significant implications for regional planning. The Secretary of State notes these views. He also notes that the Inspector recommended in paragraph 2.20 of Chapter 58 that in the event of a decision being made in principle that there should be future expansion of Heathrow Airport the Secretary of State for the Environment should consider the making of a statement to the effect that the decision should not be construed as implying any weakness of support for Green Belt or other approved restraint policies as they apply to land elsewhere in the Heathrow area.

Visual Impact of the Development (Chapter 46, paragraph 6.4 and Conclusion paragraph 7.1; Chapter 47, paragraphs 2.21 and 2.22; Chapter 49, paragraph 4.9).

24. The Secretary of State agrees with the Inspector's conclusions about the visual implications of the construction of a fifth terminal on the applications site. He also agrees that comprehensive landscaping could be carried out only if land to the west of the A3044 were incorporated within the airport boundaries, which is not provided for by the present applications.

The possibility that further development may be proposed in the longer term (Chapter 39, Conclusions paragraphs 6.7-6.16; Chapter 47, paragraph 2.23; Chapter 49, paragraphs 6.1 and 11.1-11.6).

25. It is apparent from his Report that the Inspector believed that a fifth terminal was necessary, that the demand for it had been demonstrated and that such adverse effects as there would be were outweighed by other factors. The Inspector had in mind two different views of the fifth terminal development, the applications as put forward by your clients and his own judgement of the most appropriate size and extent of development needed to meet certain criteria for the future of Heathrow as a whole. The Inspector made clear that, in his view, Heathrow's restricted site had given rise to serious operational shortcomings at the airport and had had an unsatisfactory effect on conditions in the surrounding area; that because of this, Heathrow compared unfavourably with its European competitors; and that Heathrow's position as the world's foremost international airport could seriously deteriorate in the future if its shortcomings were not remedied. There were therefore, in his view, overwhelming advantages in some territorial expansion and the provision of a fifth passenger terminal would be a major justification for the expenditure required to make land available at the Perry Oaks sludge works. The Inspector believed that the requisite decisions ought to be made now and a limit placed upon the expansion of the airport. However, he had reservations as to how far the planning applications before him met Heathrow's future requirements. The Secretary of State notes these views but any decision on the development of Heathrow in the longer term is not for this decision letter. These are matters for the Secretary of State for Transport in considering airports policy.

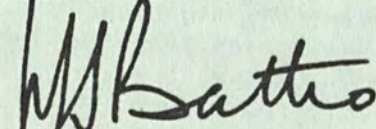
DECISION OF THE SECRETARY OF STATE

26. Although the Inspector considered the possibilities of further expansion at Heathrow both in relation to your clients' proposal, and in relation to a more extensive development over a larger area, it is only your clients' proposal that is before the Secretary of State for determination. The Secretary of State considers that this proposal must be refused on the grounds that (as stated in paragraph 17 of this letter) the direct access to the terminal proposed in the

applications would be inadequate. The Secretary of State also considers that your clients' proposal is unacceptable because of the difficulties (referred to in paragraphs 13 and 24) of providing a suitable layout and adequate landscaping on the site identified in the applications. The Secretary of State takes the view that until such time as a clear indication has emerged of how the problems of making land available at Perry Oaks are to be resolved, it is not appropriate to give consideration to the provision of a fifth terminal at Heathrow.

27. For the reasons given above the Secretary of State hereby refuses outline planning permission for the expansion of Heathrow Airport by the provision of a new passenger terminal complex and associated facilities and works on land east of Stanwell Moor Road, Perry Oaks, as proposed in the applications by Uttlesford District Council.

I am Gentlemen
Your obedient Servant



W. S. BATHO
Under Secretary, Regional Director



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Our reference

APP/4926/3

Date

5th June 1985

Gentlemen

PROPOSED DEVELOPMENT AT STANSTED AIRPORT

INTRODUCTION

1. We are directed by the Secretaries of State for the Environment and for Transport to say that consideration has been given to the report of the Inspector Mr Graham Eyre QC who held public inquiries into the following applications by the British Airports Authority (BAA):

- I an application dated 25 July 1980 under Section 25 of the Town and Country Planning Act 1971 for outline planning permission for the expansion of Stansted Airport by the provision of a new passenger terminal complex with a capacity of about 15 million passengers per annum east of the existing runway, cargo handling and general aviation facilities, hotel accommodation, taxiways (including the widening of a proposed taxiway to be used as an emergency runway), associated facilities (including infrastructure for aircraft maintenance and other tenants' developments) and related road access; ("the main Stansted application")
- II an application dated 24 June 1981 under Section 25 of the Town and Country Planning Act 1971 for outline planning permission for erection of three dwelling houses on a site at Burton End; ("the Burton End application")
- III an application dated 31 March 1981 for planning permission for use of a site on land south of the former railway line and east of the B183, Takeley, as a mobile home park; ("the mobile homes application")
- IV an application dated 18 February 1981 under Section 25 of the Town and Country Planning Act 1971 for planning permission for construction of connections from the airport roads to the A120 and M11, the airport distributional junction and a section of the primary airport road; ("the airport roads application").

The above listed applications were referred to the Secretary of State for the Environment for determination in accordance with a direction issued under Section 35 of the Town and Country Planning Act 1971. The decisions on the applications referred to at I and IV above have been taken jointly by the Secretaries of State for the Environment and for Transport as the proposals involve development of operational land for which the Secretary of State for Transport is the appropriate Minister within the meaning of Section 225 of the Act. The decisions on the applications referred to at II and III above have been taken by the Secretary of State for the Environment.

V applications dated 25 July 1980 under Section 55 of the Town and Country Planning Act 1971 for listed building consent to demolish seven buildings -

- i. Little Cooper's Cottage;
- ii. Blunts;
- iii. Great Cooper's Farmhouse;
- iv. Barn to east of Great Cooper's Farmhouse;
- v. Little Cooper's Farmhouse;
- vi. Barns to west of Little Cooper's Farmhouse;
- vii. L-plan range of byres and stabling to northwest of Little Cooper's Farmhouse

These applications were referred to the Secretary of State for the Environment for determination in pursuance of directions issued under paragraph 4 of Schedule 11 to the Town and Country Planning Act 1971 and have been decided by him ("the listed building consent applications");

VI an application dated 25 November 1981 for scheduled monument consent for ground works associated with the application I above which would result in the destruction of or damage to a scheduled monument on land at Bassingbourn Hall, Stansted Airport; the application is for decision by the Secretary of State for the Environment ("the scheduled monument consent application"); and

VII The Stansted Airport - London Compulsory Purchase (No 1) Order 1980 published by BAA on 31 July 1980 under Section 17 of the Airports Authority Act 1975 and in accordance with the Acquisition of Land (Authorisation Procedure) Act 1946 and submitted to the Secretary of State for Trade on 5 December 1980 for confirmation; the Order is for decision by the Secretary of State for Transport.

2. The following matters, into which inquiries were held concurrently with those into the matters listed above, are also dealt with in this letter;

VIII Highway Proposals made by the Department of Transport

- a. the A120 Birchanger Interchange Trunk Road Order 19 published by the Secretary of State for Transport on 19 February 1981 and proposed to be made by him under Section 10 of the Highways Act 1980;
- b. the A 120 Birchanger Interchange (Side Roads) Order 19 published by the Secretary of State for Transport on 19 February 1981 and proposed to be made by him under Section 14 of the Highways Act 1980;
- c. the M11 London to Cambridge Motorway (Stansted Airport Spur Roads and Connecting Roads at Birchanger) Scheme 19 published by the Secretary of State for Transport on 19 February 1981 and proposed to be made by him under Section 16 of the Highways Act 1980;

- d. the A120 Birchanger Interchange Compulsory Purchase Order (no CE 19) published by the Secretary of State for Transport on 12 March 1981 and proposed to be made by him under Sections 239 and 240 of the Highways Act 1980 and under Section 1 of the Acquisition of Land (Authorisation Procedure) Act 1946;

These matters are for decision by the Secretaries of State.

- IX the Stopping-up and Diversion of Highways (County of Essex) (No) Order 198 , published by the Secretary of State for Transport on 2 July 1981 and proposed to be made by him under Section 209 of the Town and Country Planning Act 1971 to authorise the stopping-up and diversion of highways described in the Order and to require the provision of two new footpaths and a bridleway;

This matter is for decision by the Secretary of State for Transport.

The above matters are dealt with below in sections I-IX of this letter.

3. Also before the inquiries were two applications made by Uttlesford District Council for outline planning permission for the extension of Heathrow Airport. The decision of the Secretary of State for the Environment on those applications is the subject of a separate letter. Two other applications which were also before the inquiries have been withdrawn:

- a. an application dated 26 March 1981 made by the Town and Country Planning Association under Section 25 of the Town and Country Planning Act 1971 for outline planning permission for reclamation of foreshore for the development of an international airport at Maplin Sands, Essex, capable of handling 15 million passengers per annum;
- b. an application dated 31 March 1981 by BAA for planning permission for use of a site on land at Burylodge Lane, Stansted as a mobile home park.

4. A copy of the Inspector's report was sent on 10 December 1984 to you and to every person who was a party at the inquiry. This was accompanied by a document which comprised extracts from the report, including the Inspector's conclusions, and all of his recommendations.

5. Careful consideration has been given to all the arguments put forward on behalf of the applicants, the local planning authority and other parties and to the Inspector's conclusions and recommendations on each of the applications dealt with in this letter. Since the inquiries closed, the Secretaries of State have received a large number of representations relating to the proposed expansion of Stansted Airport and there have been two Parliamentary debates. All of the representations, and the Hansard reports of the debates, have been considered. Nothing in them appears to the Secretaries of State to constitute new evidence, or to raise a new issue, which need to be referred to the parties before they proceed to a decision. Nor does anything in them dispose the Secretaries of State to take a view on the matters before them different from that which they would otherwise have taken.

SUMMARY OF THE DECISIONS OF THE SECRETARIES OF STATE

6. The Secretaries of State have decided to grant planning permission on the main application for expansion of Stansted Airport subject to conditions. The reasons which led to the decision are summarised in paragraphs 54-56, and the decision is stated in full in paragraph 98. The Secretary of State for the Environment and the Secretary of State for Transport have also made decisions on the related matters, II, III, IV, V, VII, VIII and IX listed in paragraphs 1 and 2 of this letter. The reasons for the decisions are explained under the relevant headings in that part of the letter from paragraphs 62-97. For the reasons explained in paragraphs 82-83, the Secretary of State for the Environment has deferred a decision on the application for scheduled monument consent referred to at VI in paragraph 1.

I THE MAIN STANSTED APPLICATION

The Rule 6 Statement

7. The Secretary of State for the Environment in a statement issued under Rule 6(1) of the Town and Country Planning (Inquiries Procedure) Rules 1974 identified the following points as likely to be relevant to consideration of the application:

- a. the need for the new terminal and associated developments and their proposed location at Stansted as opposed to any alternative location which may be put before the inquiry;
- b. the implications of the development for:
 - i. employment;
 - ii. housing, associated development and services;
 - iii. road traffic and public transport;
 - iv. safety
- c. the effects of additional noise and pollution arising from constructionwork and the use of the development;
- d. the effect of the proposal on the Green Belt, existing land uses including agriculture, and the character of local towns, villages and the countryside;
- e. the visual impact of the development;
- f. the possibility that further development may be proposed in the longer term.

The Inspector's Conclusions and Recommendations

8. The Inspector's conclusions that are relevant to the main Stansted application are identified and discussed in paragraphs 12-53 below under the broad headings of the items in the Rule 6 statement as quoted in paragraph 7 above.

9. The Inspector's formal recommendation on the application was in the following terms (Chapter 60 of his report):

"1.1 that the application made by BAA for outline planning permission for the expansion of Stansted Airport by the provision of a new passenger terminal complex with a capacity of about 15 million passengers per annum east of the existing runway, cargo handling and general aviation facilities, hotel accommodation, taxiways (including the widening of a proposed taxiway to be used as an emergency runway), associated facilities (including infrastructure for aircraft maintenance and other tenants' developments) and related road access be permitted subject to:

the conditions which have been agreed between BAA and the lpa [local planning authority] and to such other conditions I have earlier indicated as being appropriate.

1.2 By virtue of matters of great significance which I have earlier discussed, the recommendation contained in paragraph 1.1 above is wholly contingent upon Government making an unequivocal declaration of intention either prior to or contemporaneously with the grant of any planning permission that a second main runway will not be constructed at Stansted Airport in the future.

1.3 In the absence of such a declaration or other mechanism designed to demonstrate and ensure that a second runway at Stansted Airport will not be constructed I would recommend that the application referred to in paragraph 1.1 above be refused."

10. The conditions referred to in the Inspector's recommendation are contained in Chapter 55 of his report.

11. The Inspector also made recommendations as to additional measures: those in relation to Stansted are contained in Chapter 56 of his report, and those of a general nature are contained in Chapter 59. Most of the recommendations in Chapter 56 are considered in the following paragraphs, together with the Inspector's conclusions and main recommendations. In the opinion of the Secretaries of State, however, some of the recommendations in Chapter 56 and all of those in Chapter 59 raise issues which go beyond the Stansted application and which cannot be dealt with satisfactorily in that context. The Secretary of State for Transport will take these recommendations into account in his consideration of airports policy generally.

CONSIDERATION OF THE INSPECTOR'S CONCLUSIONS AND RECOMMENDATIONS

A. THE NEED FOR THE NEW TERMINAL AND ASSOCIATED DEVELOPMENTS AND THEIR PROPOSED LOCATION AT STANSTED AS OPPOSED TO ANY ALTERNATIVE LOCATION.

12. The relevant conclusions of the Inspector are to be found in the following chapters of the report:

Chapter 4 (Forecasting of Passenger Demand), paragraph 6.1

Chapter 6 (Passenger Terminal Capacities), paragraphs 8.1-8.4

- Chapter 7 (Air Traffic Movements and Air Transport Movement Capacities), paragraphs 8.1-8.4
- Chapter 8 (Should The Demand Be Met?), paragraphs 4.1-4.2
- Chapter 9 (The Potential Solutions) paragraph 2.1
- Chapter 10 (The Regions and their Airports), paragraphs 7.1-7.8
- Chapter 11 (Maplin), paragraphs 9.1-9.2
- Chapter 12 (Yardley Chase), paragraph 6.1
- Chapter 13 (Sevenside), paragraph 6.1
- Chapter 27 (Operational and Financial Implications of Expansion at Stansted) paragraphs 7.1-7.5
- Chapter 28 (Position in relation to the Main Application), paragraph 2.1
- Chapter 37 (The Problem of Perry Oaks), paragraph 6.6
- Chapter 50 (The Potential for Stansted Airport), paragraphs 9.1-9.2
- Chapter 53 (Strategy : Formulation, Operation and Testing), paragraphs 10.1-10.11.

13. The Inspector approached the question of need by considering first the level of demand for which it would be prudent to plan provision and the capacity likely to be available at existing airports. He then considered whether the demand should be met and if so the options for providing capacity to meet it: whether at one or more of the existing London area airports, regional airports, or at a new airport on a greenfield site. Finally he drew conclusions about where and when additional capacity would need to be provided in the London airports system.

14. Demand (Chapter 4) The Inspector examined forecasts of air passenger demand in considerable detail, looking at demand for the London area and for the regional airports, and introduced the concept of demand planning values (DPVs) to represent the level of demand for which it would be prudent to plan provision. He concluded that air passenger demand would continue to increase and that provision should be made for 61 million passengers per annum (mppa) by 1990 in the London area, 75 mppa by 1995 and 89 mppa by 2000. These figures were similar to the Department of Trade 1983 forecast values towards the upper end of the narrowed range. The Secretaries of State agree that on the evidence available the Inspector's figures reflect the level of likely future demand up to the mid 1990s. Since the end of the inquiries the 1984 Department of Transport forecasts have become available. These forecasts which were published in July 1984 are consistent with the Inspector's conclusions. His DPV figures fall between the corresponding high and low case figures for each of the years 1990, 1995 and 2000 given in the 1984 forecasts. The Secretaries of State take the view that the Inspector's DPVs are soundly based and should be used as a guide for the demand for capacity to the mid 1990s. There must, however, be more uncertainty about forecasts for the later years, and the Secretaries of State attach correspondingly less weight to them.

15. Capacity (Chapters 6 and 7) The Secretaries of State share the Inspector's caution (Chapter 6 paragraph 8.1) about the use of figures for annual terminal capacity. They agree with him that such figures should not be "treated as having any definitive or precise quality", but that they may, nevertheless, be

"used circumspectly in making judgements and, ultimately, the decisions that necessarily have to be taken". On this basis, they consider reasonable his assessment, (Chapter 6, paragraph 8.4) that for planning purposes the existing planned and committed capacity of the London airports system should be taken as 63.5 mppa in 1990 and between 66.5 and 72.5 mppa in 1995. They further agree with the Inspector's view (Chapter 52, paragraphs 5.9-5.12) that some margin of capacity needs to be available to cater for such factors as airport mismatch.

16. Meeting demand (Chapter 8) The Secretaries of State agree with the Inspector's conclusion that meeting demand for additional airport capacity in the right place, by the right means and at the right time is clearly in the national interest. They further accept his view that capacity to do this cannot be provided "willy-nilly and at any price, but that due regard must be had to important environmental and other questions which are examined in [his] Report."

17. The Regions and their airports (Chapter 10) The Secretaries of State are aware of the case put forward at the inquiries for developing Britain's regional airports as an alternative to providing further capacity in the London airports system. They note the Inspector's assumptions (in Chapter 6 of his report) about the growth of traffic at the regional airports and his conclusions in Chapter 10 of his report. While accepting the importance of these airports for the economy of the regions they serve, the Secretaries of State agree with the Inspector's conclusion that they cannot make so large a contribution towards satisfying future demand as to remove or greatly reduce the need for further capacity in the South East. Other aspects of the Government's policy towards the regional airports are not within the scope of this letter, and will be dealt with by the Secretary of State for Transport in his consideration of airports policy generally.

18. Maplin, Yardley Chase, Severnside and other options The Secretaries of State are in agreement with the Inspector that none of the alternative sites of Maplin, Severnside and Yardley Chase provides an acceptable solution to meet further demand. In the light of the very extensive examination which has taken place, both at the inquiries into the Stansted and Heathrow Terminal 5 applications and in the earlier investigations to which the Inspector refers in Chapter 2 of his report, the Secretaries of State are satisfied that there is no location which offers a practicable solution to the provision of airport capacity in the South East other than the existing airports in the London system.

19. Provision of Additional Capacity The Inspector examined and analysed the individual elements of air traffic demand and capacities in Chapters 4 - 8 of the Report. In Chapter 52 he set out the following conclusions in respect of demand and capacity in the London airports system:

- 6.1 It would be prudent to ensure that additional passenger terminal capacity should be available no later than 1990/1991.
- 6.2 There should be a capability for an additional capacity of at least 10 mppa by the mid 1990s.
- 6.3 There should be a further capability for capacity which would ensure a total addition of at least 20 mppa by the end of the century.
- 6.4 To ensure that demand could, if necessary, be met well into the 21st century, there should be a further capability of another 20 mppa capacity.

- 6.5 A long term strategy for the London area airports should be based on the requirement for a capability to accommodate an addition to existing and planned passenger capacity of some 40 mppa in order that need could be met before and after the year 2000 as, when and if it arises.

Views of the Secretaries of State on Need and Location

20. The Secretaries of State accept the validity of conclusions 6.1 and 6.2 above. They also appreciate the value of the Inspector's effort to set out a long term strategy for the London airport's system area, in order to create as much certainty for the future as possible. The Secretaries of State consider that it is not possible to view demand forecasts for beyond the mid 1990s with the same degree of certainty as those for 1990/95, and the Inspector's conclusions 6.3, 6.4 and 6.5 must therefore be more conjectural. They agree, however, that the evidence that has been submitted to the Inspector on the issues of passenger demand and terminal and runway capacity does point to the conclusion that there will be a need for additional airport capacity in the South East in the early and mid 1990s. It is the view of the Secretaries of State that this is a need which ought to be met.

21. Taking runway considerations into account, usable capacity at London airports is sufficient only to 1990/1, and then only with the most efficient distribution of traffic between airports and terminals. If a decision were taken to provide new terminal capacity at Heathrow there could be no assurance that this could be made available until after 1991, because of the need to re-locate the Perry Oaks works which occupies the only site at Heathrow suitable for a new major terminal facility. They note the Inspector's conclusion that additional terminal accommodation cannot be assumed to be available at Heathrow prior to 1995/96 at the earliest. In any event, this could only increase the usable capacity of the airport if runway considerations allowed an increase in terminal capacity to be effectively used. Gatwick offers no solution to the problem because there are strong reasons against the provision of a second runway there. At Stansted, however, there exists substantial unused runway capacity, and there is the possibility of providing additional terminal capacity by the required date. In the view of the Secretaries of State, if this potential were not used air traffic growth would be suppressed as the other London airports would be unable to meet the demand.

22. The Secretaries of State consider that the recent CAA study of runway capacity in the London airports system does nothing to alter the Inspector's conclusion that only Stansted can provide additional capacity to meet demand in the early to mid 1990s. Having carefully weighed and evaluated all the evidence presented to the Inspector and considered all other relevant matters, the Secretaries of State are of the view that there is a need for terminal capacity to be provided at Stansted airport in order to meet the anticipated increases in air passenger traffic from 1990/91 onwards, and that the expansion of the airport to a capacity of 15 mppa as proposed by BAA represents the best practicable way of providing that capacity.

Phasing of the Development

23. The Secretaries of State are satisfied on the evidence that there will in due course be a need for a capacity of 15 mppa to be provided at Stansted but they consider that the inherent uncertainty in forecasting the rate of growth in passenger traffic makes it prudent to allow for flexibility in provision of the capacity. They therefore believe that it would be desirable to phase the development, as acknowledged by the Inspector. This would also help to mitigate some of the environmental and planning implications of the airport's

expansion. The evidence as to the rate of growth of demand in the period up to the early 1990s indicates in their view that the first phase should provide capacity of 5-6 mppa in addition to the 2 mppa capacity of the existing terminal at Stansted, which will no longer be available for passenger traffic after the new facilities are commissioned. The first phase of the new terminal should therefore have a capacity of 7-8 mppa. Evidence was given at the inquiry on behalf of BAA as to the extent of floorspace which would be required for various levels of passenger throughput. On the basis of this evidence, the Secretaries of State consider that for a throughput of 7-8 mppa a usable floorspace of 50,000 sq metres would be appropriate.

24. The Secretary of State for Transport is announcing in a White Paper that he intends to put before Parliament proposals for legislation which would give him power to make orders imposing limits on the number of air transport movements at airports. Such orders would be subject to Parliamentary approval, and thus Parliament would have final control over the maximum amount of traffic permitted at an airport in respect of which the Secretary of State has made an order. In the view of the Secretaries of State the existence of such control would be compatible with their decision to grant planning permission for a phased development to a capacity of 15 mppa at Stansted. They consider this decision is appropriate whether or not Parliament enacts such legislation.

B. IMPLICATIONS FOR EMPLOYMENT, HOUSING, ASSOCIATED DEVELOPMENT AND SERVICES; ROAD TRAFFIC AND PUBLIC TRANSPORT AND SAFETY.

The relevant conclusions of the Inspector are to be found in the following chapters of the report:

Chapter 3 (Regional Planning and Policy in the South East)

Chapter 22 (Employment)

Chapter 23 (Urban Growth)

Chapter 16 (Surface Access)

Chapter 17 (Air Traffic Services and Safety)

25. Regional Planning and Policy in the South East (Chapter 3, Conclusions in paragraphs 5.1-5.4 and 5.6) Chapter 3 of the Inspector's report discussed various statements of policy which have been made from 1964 onwards. The Secretaries of State agree generally with the Inspector's conclusions about the implications within the South East region of the expansion of Stansted. Inevitably the expansion of Stansted to 15 mppa entails some adjustment to regional policies which have evolved without regard to such proposals. The Secretaries of State agree with the Inspector, however, that the development, and the associated urban growth, can be accommodated without undue damage to strategic planning policies that have evolved in the South East. In particular, the development would be consistent with the priorities in land use policy identified in the letter of 7 August 1980 from the Secretary of State for the Environment to the Chairman of the Standing Conference on London and South East Regional Planning, namely: improvement and utilisation of existing buildings and infrastructure, and support for industrial and commercial development.

26. Employment (Chapter 22, Conclusions in paragraphs 8.1-8.4) The Inspector considered the amount of employment likely to be generated by the proposed development primarily from the point of view of its implications for migration, housing provision and urban growth. The Secretaries of State consider that the

Inspector was right to treat with caution the various estimates put before him of the employment likely to be generated. They accept his conclusion (paragraph 8.3 of Chapter 22) that the local labour market would adjust over the time during which the airport developed. They note the possibility that local shortages of certain types of skills could occur, but consider that such problems should be limited in extent and duration. The Secretaries of State agree with the Inspector's conclusion that the overall economy of the local area and of surrounding areas would benefit from the development, and that the benefits could spread as far as north-east London and north Kent.

27. It is not possible to be certain about the geographical spread of employment generated by airport expansion at Stansted. To a considerable extent this will be influenced by the policies adopted, particularly those adopted by local planning authorities, and by the availability of transport links between the airport and areas with a supply of labour such as north east London. The Secretaries of State consider that the proposed development presents important opportunities for employment creation and economic-development in places within the region where they are needed.

28. Urban Growth (Chapter 23, Conclusions in paragraphs 4.1, 4.2, 7.1 and 13.1-13.9) The Inspector sought to test the consequences of the development of Stansted for urban development on the assumption of the need for 17,000 additional dwellings. He considered, however, that this substantially over-estimated the requirements likely to flow from an expansion to 15 mppa, and made an overall judgement that the additional dwelling requirement attributable to such an expansion would not exceed 10,000. Having considered the evidence, the Secretaries of State see no reason to dispute the Inspector's conclusions on this matter. The Secretaries of State also agree with the Inspector's conclusion that, at the scale of urbanisation tested, Harlow, Bishop's Stortford and the Stansted, Elsenham and Birchanger area could accommodate the order of development he identified as associated with the expansion of Stansted to 15 mppa without unacceptable implications or consequences. They further accept his conclusions that the balance of urban growth can be accommodated by relatively modest increments to existing towns and settlements, without unduly affecting the character of the area or its settlement pattern, and that the villages will not be required to accommodate airport-associated development on any significant scale. The effect of the development on the Green Belt is discussed in paragraphs 47-48 below.

29. The extent of the development needed and its precise location are not, however, matters for decision in this letter. They should be settled through the normal statutory planning process. It will be for Essex County Council and Hertfordshire County Council in the first instance to bring forward appropriate proposals for alterations to their structure plans. These will be considered under the relevant procedures. The Secretaries of State note the Inspector's view that releases of land should take place on a phased basis and in accord with some broad strategic framework. They consider that the relevant structure plans should provide an appropriate framework and they therefore expect the planning authorities to pursue urgently all necessary work, whilst taking account of advice in circulars issued by the Department of the Environment.

30. Surface Access (Chapter 16, Conclusions in paragraphs 10.1-10.4) The Secretaries of State agree with the Inspector that it is important that an expanded Stansted airport should have adequate access to and from the London area. In particular, if it is to play its proper part in the London airports system, it is desirable that Stansted should have access arrangements to compare

with the other two existing major components of that system: Heathrow and Gatwick. They do not disagree with the Inspector's view on the adequacy of the strategic road network to deal with the anticipated traffic from the airport. The Secretaries of State also note the views expressed on behalf of the Greater London Council that airport related traffic could be accommodated if expansion were to 15 mppa only.

31. With regard to local roads, the Secretaries of State note the closeness of the estimates of the British Airports Authority and those of the Hertfordshire and Essex Consortium on estimated weekday traffic flows. They note also the co-operation between these parties in assessing necessary road improvements, and the differences of view on how far the need for these would result from the airport expansion. In the event, the Inspector found that only two improvements (both to the A120) would be required. Proposals for a link from the M11 to north east Harlow, for an interchange on the M11 near Quendon, for the integration of the Takeley by-pass with the airport's internal road system, and for any improvements to the A120, are matters for the local highway authorities, and the Secretary of State for Transport would expect them to bring forward the necessary proposals. The Secretary of State for Transport agrees with the Inspector that Government planning decisions of themselves cannot justify special financial arrangements for local roads, but these projects would be considered sympathetically under the then existing systems for grant aiding local highway expenditure.

32. Having considered all the evidence available to him on the options for a rail link to the airport, the Inspector recommended the provision of a high quality rail link. The Secretaries of State, having carefully noted the Inspector's findings on this matter, consider there is insufficient material available on which to base a decision, and that the various options should be further appraised taking account, inter alia, of the consequences of phasing of the airport development. The Secretary of State for Transport recognises the need to reach a decision on this important issue as soon as possible. With regard to the Inspector's recommendation on the provision of a coach service, the Secretaries of State consider that there should be scope for this even if a rail link is provided. If, however, there is no rail link, then coaches would assume correspondingly greater importance in travel to and from the airport. It is appropriate, therefore, that the part coaches might play should be considered in conjunction with the appraisal of a rail link. They note that plans for the airport include a bus station; no doubt provision would also be made for taxis.

33. Air Traffic Services and Safety (Chapter 17, Conclusions in paragraphs 7.1-7.5) The Inspector was concerned to examine the capacity of the Air Traffic Services (ATS) system to deal safely with the increased air traffic movements that would result from the proposed expansion of Stansted. To this end he examined evidence on plans for the use of airspace around the airport and in the London Terminal Control Area (LTMA) to allow for the proposed expansion, the operational organisation of ATS, the potential traffic demand on LTMA airspace and its capacity, and aviation safety. On the basis of the evidence before him, the Inspector concluded that the proposed expansion of Stansted would not cause insuperable problems for ATS. He considered that the airspace control arrangements proposed for the expansion of the airport were satisfactory and that the resulting restrictions on other airspace users were regrettable but unavoidable. He further considered that changes in the ATS organisation were necessary and should be put in hand. The Inspector concluded that "If the LTMA traffic demand of Stansted significantly exceeded the potential of one runway, there would be a risk that either Luton would have to close or the volume of

traffic generated by Luton and/or Stansted would have to be restricted. Even if Luton closed, there would be a high risk that only a fraction of the capacity of Stansted's second runway could be utilised. If Luton remained open that fraction would be lower and could be very low." Having carefully considered all the evidence before them, the Secretaries of State are broadly in agreement with the Inspector's conclusions on air traffic services and safety. However, as no second main runway is to be provided (see paragraph 53 below) such problems will not in practice arise. The Department of Transport will keep in close touch with National Air Traffic Services to ensure that the necessary steps are taken in good time.

C. THE EFFECTS OF ADDITIONAL NOISE AND POLLUTION ARISING FROM CONSTRUCTION WORK AND THE USE OF THE DEVELOPMENT

The relevant conclusions of the Inspector are to be found in the following chapters of the report:

Chapter 20 (Stansted: Air Noise)

Chapter 21 (Stansted: Ground Noise)

34. Air Noise (Chapter 20, Conclusions in paragraphs 10.1-10.4) The Inspector examined the impact of the proposed development on the noise climate around Stansted in the context of the present and predicted noise levels, the prospects for palliative measures, and the numbers of people who might be adversely affected. The Inspector also assessed the problem of measuring the annoyance caused by aircraft noise. He noted that the Secretary of State for Transport is reviewing the Noise and Number Index (NNI) and considered that there might be some justification for a move toward the Leq (Equivalent Continuous Sound Level) method. However, in the meantime, the Inspector believed the NNI to be the most appropriate index and the Secretaries of State have considered his comments on that basis.

35. The Inspector concluded that the proposed development would inevitably lead to an increase in aircraft noise and consequently to an increase in the area and the numbers of people affected. He also concluded that in relative terms, the number of people significantly affected would be small by comparison with those now affected by such airports as Heathrow, Gatwick and Birmingham. Furthermore, he was optimistic that various ameliorative measures, notably the ban on non-noise certificated aircraft, would have a beneficial effect on likely noise levels. However, the Inspector considered that additional measures should be implemented in order to minimise the extent to which serious disturbance will occur. He therefore recommended, in Chapter 56, operational measures to ensure that Continuous Descent Approach (CDA) procedures could be followed; studies into approach paths which minimise noise at surrounding towns and villages; and the introduction of a noise insulation grant scheme once traffic at the airport reaches 2 mppa.

36. The Secretaries of State appreciate that aircraft noise can constitute a serious problem and that all practicable steps should be taken to minimise possible adverse effects. They acknowledge the value of procedures such as CDA in minimising aircraft noise and the Secretary of State for Transport will continue to encourage the use of such procedures, subject always to the overriding requirements of air safety. Aircraft approach paths are primarily a

matter for the CAA, and the Secretaries of State expect that the authority will bear in mind the Inspector's views on measures that might be taken to minimise the extent to which populated areas are exposed to noise. As to the areas that would still be affected significantly, the Secretaries of State agree with the Inspector that a noise insulation grant (NIG) scheme should be introduced when the airport throughput reaches 2 mppa. The Secretary of State for Transport intends that the scheme should be on the lines of those implemented at Heathrow and Gatwick and take account of the results of the current review into the effectiveness of the latest schemes. The Secretary of State for Transport, under the powers conferred by S78 of the Civil Aviation Act 1982, also intends to supplement the measures already in existence to ensure that aircraft noise is limited as far as practicable and monitored effectively. The Secretaries of State agree with the Inspector that, while any increase in the number of people affected by aircraft noise is regrettable, the consequences of air noise from the proposed development would not be so serious that permission should be refused on that account.

37. In Chapter 55, and again in Chapter 59 the Inspector made several recommendations on additional measures on air noise. In the opinion of the Secretaries of State these go beyond the implications of the Stansted application alone. Two of the recommendations in Chapter 59 are for the Secretary of State for the Environment to consider: 2.9 (Clarification of advice in Department of the Environment Circular 10/73) and 2.14 (Reconstitution of the Noise Advisory Council). On the first, Circular 10/73 is already being revised; on the second, the Secretary of State has indicated by way of written Parliamentary Answer (Hansard 4 April 1984, Col.552) that he does not intend to reconstitute the Noise Advisory Council. The remaining recommendations, including one for a ban on night movements at BAA's London airports, the Secretary of State for Transport will take into account in his consideration of airports policy generally.

38. Ground Noise (Chapter 21, Conclusions in paragraphs 11.1-11.9) The Inspector considered the different methods used by the parties (BAA and the Hertfordshire and Essex Consortium) in assessing ground noise. The Secretaries of State note that it was not possible to resolve the differences in the results of these assessments. They also note the Inspector's conclusion that attempts should be made to agree standard methods and means for the assessment of airport ground noise. Because of the complexities of this subject the Secretaries of State see no early prospect of such an agreed approach. Ground noise covers noise from a variety of different sources, including engine testing and aircraft taxiing, auxiliary power units (APUs) and other plant, and surface traffic within, and to and from, the airport. It also includes noise caused by the work of constructing the airport.

39. The Secretaries of State accept the Inspector's general conclusions that air noise, including take off roll (TOR), would continue to dominate the noise climate, and that overall ground noise would not result in any appreciable additional annoyance. Nevertheless, there are steps that can be taken in the design of the airport, the provision of attenuation measures and in the construction and operation of the airport, which would reduce the level of ground noise or ameliorate its effects. The Secretaries of State consider that such steps should be taken wherever reasonably practicable. Some of these are appropriate matters for planning conditions while others are more susceptible of control through airport operational procedures. These matters are discussed when dealing with the Inspector's recommendations about planning conditions at paragraphs 57-61 below. The recommendation that penalties be imposed on operators of aircraft equipped with plug-in facilities who use APUs is a matter that the Secretary of State for Transport will take into account in his consideration of airports policy generally.

D. THE EFFECT OF THE PROPOSAL ON THE GREEN BELT, EXISTING LAND USES INCLUDING AGRICULTURE, AND THE CHARACTER OF LOCAL TOWNS AND VILLAGES AND THE COUNTRYSIDE.

The relevant conclusions of the Inspector are to be found in the following chapters of the report:

Chapter 18 (Lord's Bridge Observatory)

Chapter 19 (Defence Implications)

Chapter 24 (Agriculture)

Chapter 26 (Further Environmental Implications)

40. Lord's Bridge Observatory (Chapter 18, Conclusion in paragraph 6.1) The Secretaries of State recognise the value of the work done at the Lord's Bridge Observatory in radio astronomy. It is important that operation of its equipment should be subject to as little interference as possible. Expert evidence was given at the inquiry on work at the Observatory, and on the types of interference to which it was vulnerable, especially from aircraft. The Inspector noted that there was already much air traffic in the Cambridge area, some possibly within the Observatory's area of coverage, and he noted that the expansion of Stansted Airport would almost certainly result in alterations to the amount and distribution of air traffic. He concluded that some of the aircraft might well be larger than those now flying, and carry more avionic equipment, but would more likely fly to fixed and predictable patterns. The Inspector suggested that it should be a simple matter for the National Air Traffic Services (NATS) to provide the Observatory with digitised Secondary Surveillance radar (SSR) data giving the positions, identities and levels of aircraft. This, he thought, "could help to identify [interference] and, in some cases, to eliminate it from the plots." The Secretaries of State hope that NATS will take up this constructive suggestion. In the circumstances, they consider that the consequences for the Observatory should not be so serious as to justify withholding permission for the airport expansion.

41. Defence Implications (Chapter 19, Conclusion in paragraph 6.1) The Secretaries of State note that no party considered defence interests to constitute a ground of objection to developing Stansted to a capacity of 15 mppa. In particular, they note that both the Ministry of Defence and NATS are satisfied with the arrangements agreed for traffic from Wattisham, the airfield that would be most affected.

42. Agriculture (Chapter 24, Conclusions in paragraphs 8.1-8.5) Some 570 ha (60%) of the application site is farm land, agricultural land other than woodland and land occupied by agricultural buildings. Fifteen farms are wholly or partly within the site. On the basis of the evidence adduced, the Secretaries of State accept the Inspector's view that the land is of high quality, efficiently farmed with a high versatility. This assessment has, however, to be considered in the light of other factors noted by the Inspector. The quality of land, on the basis of the Agricultural Land Classification (ALC) of the Ministry of Agriculture, Fisheries and Food (MAFF), is comparable with agricultural land generally in Essex, Hertfordshire and Cambridgeshire. The site is also typical of the wider Hertfordshire and Essex Study Area, which is acknowledged for its importance in the production of cereal, potatoes and other crops. These facts indicate that the loss of farmland within the application site, together with the disturbance to farmers, whether they own, lease or occupy the land which they farm, must weigh heavily against the proposed development. Nevertheless, there is no reason to suppose that the loss

would have a serious effect on agricultural production when measured in regional or in national terms. The Inspector concluded that "it is axiomatic that the provision of additional airport capacity in the South-East will almost inevitably involve loss of agricultural land". If the capacity that it is proposed to provide by expansion at Stansted were to be provided instead by building an entirely new airport, the loss of farmland would most probably be far greater. MAFF did not object to the expansion of the Airport, and found no reason to think that more land would be taken than is reasonably necessary. The implications for agriculture of the urban development associated with the Airport have been taken into account in reaching the views expressed in paragraphs 28-29 above. The Secretaries of State therefore accept the Inspector's conclusion that "In the circumstances, the loss of agricultural land to airport and related urban development does not justify a rejection of the expansion proposal."

43. Further Environmental Implications (Chapter 26, Conclusions in paragraphs 13.1 & 13.2) The Secretaries of State understand the concern expressed by many people over the effects of the proposed development on the characters of towns and villages, on nature conservation, on recreation and tourism, and also on the supply of aggregates for construction work. The Inspector has covered these very fully in Chapter 26 of his report. The Secretaries of State endorse his view that the rural character of the area and the present pattern of settlement are likely to be less disturbed if there is a strategic framework within which development takes place. They therefore emphasise the importance for the County and District Councils as local planning authorities to ensure that appropriate structure and local plan work is put in hand.

44. Much evidence was given at the inquiry on the ecological implications of the airport development. BAA commissioned a study of the wildlife habitats within the application site and within the safeguarded area. There is no designated Site of Special Scientific Interest (SSSI) within the application site, but features of unusual ecological interest include a number of hedges and five ponds. BAA had, at the time of the inquiry, appointed an ecological adviser and were implementing plans for certain of the semi-natural habitats. The Secretaries of State are pleased to note the importance which BAA attach to this aspect of planning the airport development, and also the constructive role of the Nature Conservancy Council (NCC). The latter put forward a valuable summary of recommendations and proposals which the Secretaries of State commend to the attention of the parties. They also endorse the relevant additional measures recommended by the Inspector in Chapter 56 of his report: 2.5 (early planting), 2.6 (airside planting) and 2.15 (ecological implications). They realise, however, that the effects of the airport development on the balance of nature would extend beyond the airport itself. This wider area includes Hatfield Forest, and a large number of designated SSSIs and other sites of high conservation value. Nevertheless, the Secretaries of State consider that the conscientious application of national policies for nature conservation, of similar policies in County Structure Plans, and the maintenance of the efforts already demonstrated by BAA and NCC should keep adverse effects to a minimum.

45. So far as the supply of aggregates for construction work is concerned, the Secretaries of State note the estimates by BAA and by the Hertfordshire and Essex Consortium of the amount of aggregate that would be needed for expansion of the airport to a capacity of 15 mppa, and for the related urban growth. The amount of 5.6m tonnes represents only about 1.5% of outstanding permitted reserves in the region in 1979, and the Secretaries of State see no ground to

doubt the Inspector's assessment that there should be no major problem in making this provision. As the Inspector has commented, any similar development would require a comparable amount of aggregate, and more in the case of a wholly green field development. They do, however, support his additional recommendation in paragraph 2.18 of Chapter 56 on the production of an informal non-statutory strategy directed at meeting aggregate requirements.

46. Evidence was also given on the consequences of transporting aggregate to the Stansted area. The Inspector has commented that designated lorry routes connect the area with what appeared to him to be the main sources of supply. The Secretaries of State concur in the Inspector's view that traffic carrying aggregates should not unduly exacerbate conditions on these routes. Nevertheless, they consider that it would be useful to explore further the possibility of providing a rail head to reduce the need to transport aggregates by road, and possibly also to facilitate use of more distant sources of supply. It should also help if access roads into the airport were provided at an early stage, so that use of existing roads could be avoided where possible. Where use of minor roads is unavoidable, the Secretaries of State look to those concerned to take appropriate measures to ease the effect of this traffic.

Green Belt

47. Stansted Airport is not within the area of the green belt which is indicated generally by Policy S6 of the approved Essex Structure Plan. The Secretaries of State have considered the implications for the green belt of urban growth associated with the airport development in the light of Chapter 23 of the Inspector's report. They note that of the main locations for urban growth discussed at the inquiry, the Stansted, Elsenham and Birchanger area is not within the green belt, and that at Bishops Stortford the green belt adjoins the southern part of the town only. Harlow is surrounded by green belt.

48. The Secretaries of State note the view of the Inspector, in paragraph 2.19 of Chapter 28 of his report, that some adjustment of the green belt boundaries is likely to be required for longer-term development at Harlow, whether or not there is expansion at Stansted Airport, and that elsewhere there will be no serious consequences for the green belt. They make no judgement now about what alterations to green belt boundaries might be proposed, either at Harlow or elsewhere, to accommodate urban development associated with the expansion of Stansted. It is right that these matters should be dealt with through the normal planning process, in particular through proposals for alterations to structure plans and, where appropriate, local plans. The Secretaries of State see no reason why, given the proper operation of the planning system, the expansion of Stansted should lead to any indiscriminate sprawl of urban development in the surrounding countryside.

E. THE VISUAL IMPACT OF THE DEVELOPMENT

The relevant conclusions of the Inspector are to be found in Chapter 25 of the report (The Environment, Visual Impact and Landscaping), paragraphs 7.1-7.8.

49. The Secretaries of State agree with the Inspector that the country around Stansted is pleasant and open with some substantial woodlands, several small settlements and a number of attractive houses, farmhouses and cottages. Within this setting the existing airport has limited impact, mainly because of local topography, the low profile of the buildings and the tree cover which exists. The BAA application is for outline planning permission, so the details of the proposed development are not now before the Secretaries of State for decision.

Much illustrative material was, however, available to the Inspector to enable the likely impact of the development to be assessed. In order to help him in making these judgements, balloons were flown to indicate the height and bulk of some of the main buildings. The proposals for landscaping which have been put forward are similarly a statement of the basic principles to be followed, and will be worked more fully as the detailed plans for the development itself evolve. The Secretaries of State agree with the overall objective of BAA's master landscaping plan: that the visual impact of the airport should be as little as possible; and that an important factor in the landscape framework should be the existing pattern of woodlands and hedgerows.

50. On the basis of the illustrative material, the Secretaries of State do not dispute the Inspector's opinion that such tall buildings as the hangars, cargo block and passenger terminal would appear at close distances as alien and prominent features in the natural landscape. It was generally agreed at the inquiry that the hangars and terminal would be seen from the south by many people who live along the A120 between Takeley and Priory Wood. Other places would be affected in varying degrees. To the west of the M11, the future outlook from Duck End and Birchanger would be over the extensive new roadworks involved in the flyover junction with the motorway. Permission had at the time of the inquiry already been given for a new hangar for Aviation Traders (Engineering) Ltd (ATEL) on the west side of the airport. The Secretaries of State note that the Inspector finds that Molehill Green would be the settlement most affected, and they recognise that the earth bund required to be constructed for noise attenuation would be an incongruous and overpowering visual feature, even if landscaped. The Secretaries of State note that the airport buildings would not be seen from further away, except at a few places, and that from only one of these - on the road from Bamber's Green to Smith's Green - would they be seen to any material extent.

51. The Secretaries of State accept the Inspector's comment that although it would not be possible to eradicate the very material visual disadvantages, there would be scope to mitigate the adverse impact to a substantial degree. Such ancillary features as airport and car park lighting, for instance, can be designed so as to be as unobtrusive as possible. Even though planting and other landscaping measures may not always conceal the airport they should, nevertheless, help to soften its appearance. The Secretaries of State welcome the initiative of the Nature Conservancy Council in offering further advice on landscaping to BAA. They hope that an early start might be made with planting, especially in the perimeter zones. Whilst opportunities for landscaping on the airside of the airport may be restricted by operational requirements, the Inspector's views on this part of the overall design are commended to BAA. The Secretaries of State consider also that planting off-site might well reduce the impact of the airport development, and note that at the time of the inquiry negotiations with landowners were already in progress. Special procedures would apply for the approval of any rail link to the airport, and in this context the Secretaries of State direct the attention of those concerned to the relevant section of the Inspector's commentary (Chapter 25, paragraphs 6.23-6.24).

F. THE POSSIBILITY THAT FURTHER DEVELOPMENT MAY BE PROPOSED IN THE LONGER TERM

The relevant conclusions of the Inspector are to be found in the following chapters of the report:

Chapter 16 (Surface Access), Paragraphs 11.1-11.6

Chapter 20 (Air Noise), Paragraphs 11.1-11.6

Chapter 21 (Ground Noise), Paragraphs 12.1-12.4

Chapter 23 (Urban Growth), Paragraphs 15.1-15.3

Chapter 24 (Agriculture), Paragraphs 9.1-9.3

Chapter 25 (The Environment, Visual Impact and Landscaping),
Paragraphs 13.1-13.3

Chapter 26 (Further Environmental Implications), Paragraphs 14.1-14.3

Chapter 50 (The Potential for Stansted Airport), Paragraphs 9.3-9.7

52. In Chapter 50 of his report and in paragraph 10 of his overall conclusions, the Inspector stated that there was no justification for limiting the development of Stansted to 15 mppa, and that it should be planned from the outset to be capable of providing a capacity equivalent to that which could be accommodated on the airport's single runway - approximately 25 mppa. In various other places in the report he considered in some depth the implications of expansion to this level. As indicated in paragraph 20 above, the Secretaries of State consider that forecasts for beyond the mid-1990s cannot be viewed with sufficient certainty to say whether such further capacity will need to be provided at Stansted. While the Inspector's consideration of the possibility of development to 25 mppa might prove to be of value in considering any future proposals for development to that level, the Secretaries of State do not accept that a decision should be made now on whether such development should be allowed. To do so would be premature, and would prejudge proposals that could come to the Secretaries of State for decision at a later date.

53. Development beyond 25 mppa would involve the construction of a second runway and additional terminal and other facilities. The Inspector concluded that the capacity of the existing runway represented a threshold that could not be breached without serious consequences. For these reasons the Inspector's recommendation to develop Stansted to a capacity of 15 mppa, and eventually to 25 mppa, is expressed as being conditional upon the Government making an unequivocal declaration against the construction of a second runway at any time in the future. The Secretaries of State agree with the Inspector's view that the environmental and other effects of expansion of Stansted beyond 25 mppa would be of quite a different order from the effects of the development currently proposed. They consider, on the evidence before them, that there is no case for the provision of a second main runway at Stansted, and wish to make it clear that they have no intention of pursuing such a course. Accordingly, they agree with the Inspector that safeguarding of land for this purpose is no longer necessary.

SUMMARY OF VIEWS OF THE SECRETARIES OF STATE

54. For the reasons explained in paragraphs 12-24 above, the Secretaries of State accept that there is a need for additional airport capacity in the order of at least 10 mppa to be provided in the South-East from 1990/1 onwards. They also accept the Inspector's conclusions that it would be prudent to plan for forecast need likely to arise in subsequent years, and that present forecasts should be kept under review as circumstances change. The Secretaries of State agree with the Inspector that of the options examined at the inquiry, only Stansted can provide the capacity when it is likely to be needed; and that to do so would make use of runway capacity that is at present under-used. Like the Inspector, they consider that the need for extra terminal capacity should be met, but that other important considerations must be given full weight.

55. It is beyond doubt that airport development on the scale proposed would have a substantial impact on its surroundings in such matters as landscape, loss of agricultural land, noise from aircraft and from airport installations, and traffic. The airport development would also generate employment for people over a wide area, and more housing and services would be needed for an increased population. The Secretaries of State have considered the effects of the proposed airport expansion from all these aspects. Potentially the most serious effects of the development would be the bulk and spread of the new airport buildings, as compared with those now existing, air noise and ground noise, and urban development within the wider Stansted area. In each of these matters, however, measures can be taken which should lessen the impact of the development significantly. Sensitive design and landscaping works should go a long way to soften the appearance of the buildings, if not to conceal them altogether. The construction of noise barriers and the adoption of controls and procedures as discussed at the inquiry should do much to reduce nuisance from this source; and there is the prospect of further relief as quieter aircraft come into operation. Use of the development plan procedures should ensure that necessary urban growth is contained and has the minimum effect on the countryside.

56. Nevertheless, the Secretaries of State recognise that objections remain. They are of the opinion, however, that these are insufficient to justify rejection of the proposal when weighed against the need for additional airport capacity that has been established. Whilst the immediately foreseen need is for a capacity of some 10 mppa, the Secretaries of State consider that to allow for forecast growth in traffic in the late 1990s, and for possible fluctuations in demand, it would be appropriate to grant permission for a capacity of 15 mppa, as stated in the BAA application. However, as indicated in paragraph 23 above, they are providing for the development to be phased, with the first phase limited to a capacity of 7-8 mppa. The Secretary of State for Transport intends to seek powers to limit the amount of air traffic at the airport as explained in paragraph 24.

CONDITIONS

57. The Hertfordshire and Essex Consortium suggested a schedule of 33 conditions that the planning authority would wish to see imposed should a planning permission be granted. They discussed the suggested conditions with BAA during the inquiry. BAA agreed to 9 of the conditions wholly, and to 5 in part, and disagreed on the remaining 19. The text of the suggested conditions, a summary of the comments by the Consortium and by BAA, and the Inspector's commentary are contained in Chapter 55 of the Report.

58. The Secretaries of State have given careful consideration to what is said in Chapter 55, and have examined the suggested conditions against the criteria now set out in Department of the Environment Circular 1/85. They consider that most of the suggested conditions are reasonable and serve a proper planning function. The substance of the suggested conditions numbers 2, 3, 7, 15, 17, 23 and 24, which were agreed between the parties and endorsed by the Inspector, has been incorporated in the planning permission granted by this letter. The Secretaries of State have also decided to incorporate the substance of the following suggested conditions that were partially agreed: numbers 5, 6, 14 and 22; and the substance of those of the following conditions which were not agreed: numbers 12, 18, 19, 20, 21, 25, 29 and 33. In the view of the Secretaries of State suggested conditions numbers 1 and 4 are redundant in the light of the effect of other conditions, and have not therefore been incorporated. They are also imposing two conditions dealing with the matters covered by the suggested conditions numbers 8, 9, 10 and 11.

59. A number of the suggested conditions were concerned with aircraft movements or with other aspects of airport operation. The use of powers in the Civil Aviation Act 1982 and the issuing of relevant airport working instructions could achieve the same objects as suggested conditions numbers 13 (helicopter movements), 26 (noise and pollution monitoring stations), 27 (control of night flights), 28 (test and training movements), 30 (control of ground noise), 31 and 32 (aircraft engine testing). The Secretaries of State accept that strict regulation is necessary to ensure that these aspects of airport operation are monitored and controlled so as to minimise their adverse environmental effects. They take the view, however, that planning conditions are not always the most appropriate or the most effective means of regulation for these matters. The Secretary of State for Transport intends to make appropriate use of his powers in the Civil Aviation Act 1982, and in doing so will take into account the Inspector's report. With regard to suggested condition number 22, the Secretaries of State take the view that adequate means for control by the local authority exist in the provisions of the Control of Pollution Act 1974 and the related code of practice BS 5228: 1984 "Noise Control on construction and open sites", and they consider it unnecessary to duplicate them by imposing a condition.

60. The suggested condition number 16 seeks to withdraw certain permitted development rights. The rights which apply to BAA enable them to carry out development in Class XVIIIH (certain development required in connection with the provision of services and facilities necessary or desirable for the operation of an aerodrome) and Class XXI (Uses of Aerodrome Buildings) of Schedule 1 to the General Development Order of 1977. The Secretaries of State have had regard to what was said on these rights enjoyed by BAA in paragraph 79 of the 1978 White Paper "Airports Policy" (Cmnd 7084). The Government then accepted the logic of the argument that the relevant GDO provisions were framed before the advent of large aircraft and when runways were regarded as a main determinant of airport capacity. The White Paper stated that in the course of a general review of provisions in the General Development Order relating to Statutory Undertakers, modifications would be discussed to bring the provision of major passenger and cargo terminal buildings under normal planning control. This review has not been completed. Whilst the provisions remain in operation, the arrangements whereby BAA consults the local planning authority before exercising its right under the provisions to carry out development, except in the case of urgently necessary minor works, still apply. The planning authority then have an opportunity should they wish to make a direction under Article 4 of the General Development Order to bring the development within planning control. The

Secretaries of State are not aware that operation of these arrangements has given rise to such difficulty that they would be justified in anticipating the outcome of the review of the provisions by imposing a condition on the lines of suggested condition number 16. The right to carry out development for industrial purposes within Class VIII, which the suggested condition seeks also to withdraw, is not specific to BAA, but the Secretaries of State expect notification to be given to the planning authority of any intention to carry out such development, whether by BAA or by other occupiers of the airport. They do not therefore consider that withdrawal of the rights under the GDO permission would be justified.

61. The suggested conditions which are accepted in substance by the Secretaries of State have in most cases been redrafted or amended in the permission. The numbering of those conditions differs from the numbering used by the Inspector in Chapter 55 of his report.

II THE BURTON END APPLICATION

The Rule 6 Statement

62. The Secretary of State for the Environment in a letter dated 4 August 1981 to the Chief Executive, Uttlesford District Council, stated:

"the application relates to proposals which are dependent on the main application. Consequently the points which are relevant to the consideration of this application are those which relate to the main application . . ."

Those points are set out above in paragraph 7 of this letter.

63. This application for permission is related to the applications for listed building consent and for the demolition of 7 listed buildings within the site of the main planning application which is dealt with in Chapter 32 of the report. The application was for planning permission to re-erect 3 of these buildings on a site at Burton End which is owned by BAA. Subsequently, BAA decided that one of the buildings was of insufficient merit to justify re-erection, so in effect the proposal relates to 2 buildings only: the dwellings Little Cooper's Cottage and Blunts.

Inspector's commentary and recommendation

64. The Inspector reached no conclusions but in Chapter 33 of his report provided a commentary (in paragraphs 2.1-2.5) on the proposal and he made a recommendation (in paragraph 3.1) that the application be refused.

Views of the Secretary of State

65. The Secretary of State understands the reasons which led BAA to propose to re-erect these dwellings. Whilst listed building consent may be given for the demolition of the dwellings on their present sites, planning permission for their re-erection at Burton End is a separate issue, that has to be considered on its own merits. For the District Council it was pointed out that the site is outside the area of any village where development would normally be permitted. It is also very close to installations on the airport, and is likely to be exposed to increased noise and disturbance in the event of expansion of the

airport. The Secretary of State sees no reason to doubt the Inspector's judgement that the proposed development would be wholly incongruous in this setting, and that it could not fail to be adversely affected by air and ground noise. He therefore agrees with the Inspector that planning permission should be refused. He notes, however, that at the time of the inquiry further efforts were being made to find a suitable site for the buildings.

III THE MOBILE HOMES APPLICATION

The Rule 6 Statement

66. The Secretary of State for the Environment in a letter dated 18 June 1981 to the Chief Executive, Uttlesford District Council (which also dealt with a second application which has since been withdrawn - see paragraph 3 b above), stated:

"The applications relate to proposals which are dependent on the main application. Consequently the points which are relevant to the consideration of these applications are those which relate to the main application . ." (These points are set out in paragraph 7 of this letter).

Inspector's Commentary, Conclusions and Recommendation

67. The Inspector's commentary and conclusions are stated in paragraphs 3.1-3.9 of Chapter 30 of his report.

68. His recommendation (paragraph 4.1, Chapter 30), which was contingent upon outline planning permission being granted for the expansion of Stansted Airport to which the main application relates, was that planning permission be granted for the Takeley mobile home relocation site, subject to conditions substantially on the lines of those agreed between BAA and Uttlesford District Council.

Views of the Secretary of State

69. The Secretary of State notes that the application is stated to be for use of the land as a mobile home park, but it is apparent from the application form that the proposal involves the erection of ancillary buildings and the carrying out of other ancillary operations. The Secretary of State has therefore considered the application on the basis that it is seeking both permission for a change of use and outline permission for the erection of buildings. As to the 3 mobile homes sites within the main planning application site, he notes that these are long established and at the time of the inquiries accommodated some 270 units. BAA had already bought leases of pitches on land in their ownership when offered. As a result of such acquisitions, the number of occupiers who needed to be re-located had been reduced and ultimately was likely to be fewer than 200. The Secretary of State accepts the Inspector's view that if the airport expansion were to be permitted, then provision would have to be made for re-locating the mobile homes.

70. He also notes that other possible sites had been investigated, but Uttlesford District Council accepted that the Takeley site was the most suitable. The Council, nevertheless, pointed out that there would be objections to the development and that the granting of planning permission would involve overriding normal planning criteria. In particular, the site is on the far side of the old railway line which the Council agreed with local people should be maintained as an absolute boundary to the south of the village. Main drainage was not available. The Council also thought that access onto the B183 would be difficult; and that the additional traffic would cause congestion at the A120/B183 junction, unless the airport road system were to bypass Takeley.

71. The Secretary of State agrees with the Inspector that the fact that the site is outside the clear and well defined limits of the built up part of the village, would in normal circumstances count heavily against a proposal to use it for a mobile home park. This and other objections have, however, to be weighed against the need for the development which is created by the decision to grant permission for the expansion of Stansted Airport. As to the physical characteristics of the site itself, the Secretary of State accepts the Inspector's view that it is large enough to be laid out and landscaped to the highest standard. The landscaping might also incorporate earth moulding to provide acoustic screening if the bypass should follow the route of the former railway line. He agrees with the Inspector's opinion that "vehicles turning into and out of the site through a well engineered access would not create any material danger to general users of the B183." He also agrees that a new pedestrian way to the village should be provided. He strongly urges the developers and the District Council to enter into an agreement for the provision of drainage. He agrees that the granting of permission for the main planning application makes it desirable to grant permission for the establishment of a mobile homes park on the Takeley site. This assessment indicates no general weakening of support for established policies for the control of development in this part of Essex.

72. The Secretary of State has examined the set of six suggested conditions (in Chapter 55, paragraphs 4.2-4.7 of the Inspector's report) which BAA and Uttlesford District Council agreed should be imposed if planning permission were granted. He agrees that these suggested conditions are reasonable and serve a proper planning function, but would prefer the conditions numbers 1, 2, 3, 4 and 5 to follow the form of the relevant model conditions now set out in Appendix A of Department of the Environment Circular 1/85. He has imposed a separate condition dealing with the submission of a layout plan for the site and two conditions dealing with the matters covered by the suggested condition number 6.

IV THE AIRPORT ROADS APPLICATION

The Rule 6 Statement

73. The Secretary of State for the Environment in a letter dated 15 May 1981 to the Chief Executive, Uttlesford District Council, stated:

"The application relates to proposals which are dependent on the main application. Consequently, the points which are relevant to consideration of this application are those which relate to the main application..."

Those points are set out above in paragraph 7 of this letter.

74. The proposal comprises:

- 1) the link between the modified A120 roundabout and the airport (R1)
- 2) the primary airport road (R2)
- 3) the links between the M11 and the airport (R3)
- 4) the grade separation (R4) of the airport distributional junction (J2)

The road system as proposed is to be constructed in stages.

Inspector's Commentary, Conclusions and Recommendation

75. The Inspector's commentary is to be found in paragraphs 5.1-5.8 and his conclusions are stated in paragraph 8.3 of Chapter 31 of his report. On the

only matter at issue between the parties, namely the design speed of the R3 links, the Inspector considered that BAA's proposals provided for an appropriate speed differential between the main carriageway of the motorway and the spur roads. He concluded that BAA's proposals were necessary and of a satisfactory standard to serve the expanded airport, and that the 3 stages of the proposal are logical and have regard to the build up of airport traffic. He recommended (paragraph 9.1, Chapter 31), contingent on planning permission being granted for the main application, that the application be permitted, subject to conditions:

- a. requiring certain details (stated in paragraph 4.6(iv) of Chapter 31 of the Report) to be submitted "to the highway authority for approval and, in default of approval, to the Secretary of State";
- b. imposing a time limit on the commencement of the development;
- c. requiring "the submission to and approval or agreement, as the case may be, of the local planning authority of the detailed design and construction particulars of the airport roads system or in default of agreement as shall be determined by the Secretaries of State or the Secretary of State for the Environment."

Views of the Secretaries of State

76. The Secretaries of State agree with the substance of the Inspector's recommendation, but consider that a condition in the terms requested by Essex County Council is unnecessary if full details of the design of the roads are to be submitted to the local planning authority for approval.

V THE LISTED BUILDING CONSENT APPLICATIONS

The Rule 6 Statement

77. The Secretary of State for the Environment in a letter dated 14 October 1980 to the Director of Planning, Uttlesford District Council stated that on the information so far available the following points appeared to him likely to be relevant to his consideration of the applications:

- a. the architectural or historic importance of the buildings;
- b. the contribution they make to the surrounding area;
- c. their structural condition and state of repair;
- d. whether the need for the development proposed by the British Airports Authority outweighs the case for the retention of the buildings;
- e. the possibility of any acceptable alternative to demolition as regards particular buildings, including the feasibility of retaining any for use for any purpose together with the likely cost of any renovation or conversion work involved having due regard to economic value when completed;
- f. the feasibility and practicability of dismantling all or any of the buildings for re-erection on another site.

Inspector's Conclusions and Recommendation

78. The Inspector's conclusions are stated in paragraphs 4.1-4.4 of Chapter 32 of his report. His recommendation, contingent upon outline planning permission being granted for the expansion of Stansted Airport to which the main application relates, was that listed building consent be granted in respect of each of the seven applications, subject to a condition which was discussed in his report.

Views of the Secretary of State

79. The Secretary of State for the Environment has given the applications for consent to demolish the seven listed buildings careful consideration, both in terms of their value as buildings of special historic interest, and in relation to the proposed expansion of Stansted airport. He takes the view that the need to expand the airport outweighs the need to preserve these buildings, even though they are of considerable historic importance dating, as some of them do, from the 15th century.

80. The Inspector considered that Blunts and Little Coopers Cottage were of such quality and archaeological value as to be worthy candidates for relocation. The Secretary of State considers it inappropriate in the circumstances of this matter to impose a condition on the grant of listed building consent requiring relocation of these buildings. Nevertheless, the applicants have indicated that they intended to relocate Blunts and Little Coopers Cottage, and the Secretary of State expects them to carry these intentions through.

81. The Inspector also considered that an opportunity should be given for any responsible body or organisation to carry out appropriate archaeological investigation. The Secretary of State commends this view to BAA. He draws to their attention the provisions of section 55(2)(b) of the Town and Country Planning Act 1971 requiring that the Royal Commission on Historical Monuments be given an opportunity to make records. Given the antiquity of the buildings the Commission can be expected to make full use of this opportunity, and BAA are expected to co-operate fully with them and to dismantle the buildings with appropriate care.

VI THE SCHEDULED MONUMENT CONSENT APPLICATION

The Inspector's Commentary, Conclusions and Recommendation

82. The Inspector's Commentary and conclusions are stated in paragraphs 6.1-6.3 of Chapter 34 of his report. His recommendation (in paragraph 7.1), contingent on outline planning permission being granted for the expansion of Stansted Airport to which the main application relates, was that scheduled monument consent be granted.

Views of the Secretary of State

83. The site of Bassingbourn Hall, which is the monument to which the application for scheduled monument consent relates, is on the land of Bassingbourn Farm, lies in the south part of the site to which the main Stansted application relates and is just outside the airport's existing eastern boundary. It is visible only from the air. The Inspector took the view that if planning permission were granted for the expansion of the airport there was virtually no prospect of the monument being saved from destruction. However, as the main Stansted application is for outline planning permission, there are no detailed plans formally before the Secretaries of State from which the exact effect of the proposed development on the site of Bassingbourn Hall could be

assessed. In the view of the Secretary of State for the Environment, it would be inappropriate to deal with the application for scheduled monument consent until it can be considered in relation to firm and detailed plans for the airport. The decision will therefore be deferred.

VII THE STANSTED AIRPORT - LONDON COMPULSORY PURCHASE (No 1) ORDER 1980

84. The grounds of objection, the Inspector's commentary, his conclusion and recommendation are set out in Chapter 29 of his report. His recommendation, contingent upon outline planning permission being granted for the expansion of Stansted airport to which the main application relates, was that the Order be confirmed, subject to modifications which reflect BAA's proposals which were notified to the parties to the Inquiries in Document BAA 430C (paragraph 1.9, Chapter 29).

Views of the Secretary of State

85. The Secretary of State for Transport has considered the objections and the Inspector's report. He accepts the comments and conclusions and recommendations as set out in Chapter 29 and has decided to confirm the order subject to the modifications referred to above.

VIII HIGHWAY PROPOSALS MADE BY THE DEPARTMENT OF TRANSPORT

- A. THE A120 BIRCHANGER INTERCHANGE TRUNK ROAD ORDER 19
- B. THE A120 BIRCHANGER INTERCHANGE (SIDE ROADS) ORDER 19
- C. THE M11 LONDON TO CAMBRIDGE MOTORWAY (STANSTED AIRPORT SPUR ROADS AND CONNECTING ROADS AT BIRCHANGER) SCHEME 19
- D. THE A120 BIRCHANGER INTERCHANGE COMPULSORY PURCHASE ORDER (NO CE) 19

86. The three draft Orders would provide the necessary authority for the enlargement and trunking of the A120 Birchanger roundabout and its connection to a new airport road system. This would form the first stage of a two-stage programme for improving the trunk road system in the vicinity of the airport to cope with its proposed expansion. The draft Scheme would fix the line of two spurs linking the M11 motorway directly with the airport road system. The Scheme would also authorise a realignment of certain of the slip roads at the M11/A120 interchange and this, together with the spurs, would form the second stage of improvements. The work would be carried out when necessary having regard to the build-up of airport traffic, but the intention was to make the scheme from the outset if planning permission were given for the airport expansion, in order to establish the routes involved.

87. Chapter 31 of the Inspector's report deals with these proposals, the objections to them and the Department of Transport's response to those objections, and contains a commentary by the Inspector on the matters at issue. The Inspector's conclusions on the proposals are set out in paragraphs 8.1 and 8.2 of Chapter 31.

Divergence and merging between spur roads and M11

88. The Inspector accepted the view of the Department of Transport that it was wrong at present to commit resources (of £700,000 at January 1981 prices) and to impose the dislocation involved in demolishing and reconstructing the northern Birchanger roundabout bridge to build a system of diverging and merging arrangements the necessity and timing for which was uncertain; and that it would be neither impracticable nor very difficult to adjust these arrangements at some future date. However, he commented that as only the centre lines of the spurs are at issue now, no doubt the question of the arrangements would be examined again when the spurs were being designed in detail.

Hardshoulder

89. The Inspector accepted that there are examples of hardshoulders being tapered. Nevertheless, even though the carriageways of the M11 would be almost four lanes in width at the diverge/merge points, he had reservations about the tapering of the hardshoulder, on the grounds of highway safety. However, on the balance of the evidence put forward at the inquiry, he did not consider it would be justifiable to widen the northern bridge span of the Birchanger roundabout at the outset of the stage II works in order to achieve the normal hardshoulder widths. He commented that this was a matter which no doubt the Department would review as necessary.

Northbound spur road design standard

90. The Inspector accepted (Chapter 31, paragraph 3.15) that there should be a design speed differential between the main carriageway of the motorway and the spur roads and that a design speed of 80 kph would be satisfactory. To achieve any greater design speed and a correspondingly greater sight stopping distance would entail an increase of the radius of the spurs. The northbound diverge spur would encroach further on to farmland west of the M11 and it might even necessitate a junction south of the Birchanger roundabout. In the Inspector's judgement, quite apart from the waste of farmland, unnecessary and unjustifiable harm to the environment and greater detriment to the appearance of the landscape in the vicinity of Duck End would be caused. The Inspector also considered that a higher design speed on the spur roads would necessitate changes in the proposed location and design of the airport interchange and airport primary road, and that the operational consequences and the considerable expenditure involved would be unjustifiable.

General Matters

91. The visual obtrusiveness of the diverging spur road would, in the Inspector's view be mitigated to a degree by the landscaping proposed by the Department of Transport within the highway boundaries. He also expressed the hope that the Department would urgently negotiate with adjoining landowners, and suggested that the cost of an alternative using columns instead of the proposed embankment might be reconsidered.

92. Increases in traffic noise were found by the Inspector to be unlikely to cause any material detriment to the residents of nearby properties or to the public in general. He was satisfied that atmospheric pollution would not be significantly increased. In his view, the amount of additional traffic on the stretch of the A120 immediately eastwards of the Birchanger roundabout would be minimal and he considered that it had been clearly demonstrated that the M11 had adequate spare capacity to accommodate the additional airport related traffic.

Conclusion

93. The Secretaries of State have considered very carefully the Inspector's recommendations about the motorway and trunk road proposals in the light of all the objections and evidence bearing on the detail of those proposals. They agree with the Inspector's conclusions as set out in paragraphs 8.1 and 8.2 of Chapter 31 of the report and are satisfied that the impact of Stage I, the enlargement of Birchanger roundabout, would not be greater than necessary to achieve the necessary improvement to the trunk road system, and that the enlarged roundabout would perform satisfactorily and safely the function for

which it is designed. They do not accept the suggestion that the spur road proposals which comprise stage II should be built from the outset, and agree with the Inspector that the staged approach as proposed is appropriate. The Secretaries of State accept the recommendations in paragraph 9(i), (ii) and (iv) of Chapter 31 of the Inspector's report, and have decided that the orders should be made, with the minor modifications proposed by the Department of Transport and referred to in paragraph 1.4 of Chapter 31 of the Inspector's report.

94. No firm estimate was given of when Stage II would be brought into operation, but it is likely to be some years after the initial phase but before the second phase of development of the airport. Before Stage II could proceed it would be necessary for the Secretary of State for Transport to make provision for the acquisition of the land needed, if necessary by compulsory purchase order. If such an order were required it would be advertised in the usual way and there would be an opportunity to object. The Secretary of State for Transport will during the intervening period look again at all the design matters affecting stage II which were raised by objectors and were the subject of comment by the Inspector, and will bear in mind the need for early approaches to landowners about off-site planting. The Secretaries of State are satisfied that, with that undertaking, it is right to agree in principle to the stage II works and to the routes proposed for them. Accordingly they accept the recommendation in paragraph 9(iii) of Chapter 31 of the Inspector's report, and have decided that the Scheme should be made as published in draft.

IX THE STOPPING UP AND DIVERSION OF HIGHWAYS (COUNTY OF ESSEX) (NO) ORDER 198

95. This draft Order would authorise the closure or diversion of certain public roads, one bridleway and all or part of certain footpaths within the planning application site. The closures would under the draft Order be conditional upon BAA providing lengths of replacement bridleway and footpath. The order, the objections and representations relating to it are considered in Section 6 of Chapter 31 of the Inspector's report, and a commentary by the Inspector is in Section 7 of the same chapter.

96. The Inspector concluded (Chapter 31, paragraph 8.4) that the stopping up and diversion of the the roads, the bridleway and footpaths which are the subject of the draft Order were essential to enable Stansted Airport to be expanded to a capacity of 15 mppa and to provide proper access to the airport and that the Order complies with the provisions of Section 209 of the Town and Country Planning Act 1971. He said (paragraph 8.5) that the proposals contained in the Order for a new bridleway and new footpaths together with an additional bridleway (BW2) and footpath (FP3) (which it was agreed at the Inquiries would be provided by BAA) more than compensate for those which would be lost. He added (paragraph 8.6) that the Western Perimeter Road would provide an adequate substitute route for that part of Bury Lodge Lane which is proposed to be stopped up. He also commented (paragraph 8.7) that whether or not the Order, if made, should be modified to take account of the proposed additional bridleway (BW2) and footpath (FP3) is a matter for the Secretary of State, and he did not make a recommendation on the matter.

97. The Secretary of State for Transport has considered the objections to and representations made about the draft Order in the light of the Inspector's report and his recommendation. He accepts that the various highway closures and the diversion are a necessary consequence of the grant of planning permission and that, subject to the provision made for replacement highways, as proposed to

be added to by BAA, the requirements of section 209(1) of the Town and Country Planning Act 1971 are satisfied. He notes that the additional replacement highways (BW2 and FP3) are the subject of written assurances by BAA. He hopes that they will take up the Inspector's recommendation (Chapter 56, paragraph 2.13) to consult interested societies and other organisations as to the design details of the proposed new bridleways and footpaths. However, in order that the position should be clear on the face of the Order and in the interests of legal certainty, their provision should in his view be a requirement of the Order. Accordingly he has decided to make the Stopping Up and Diversion of Highways (County of Essex) (No) Order 198 as drafted, subject to appropriate modifications to this effect.

DECISIONS OF THE SECRETARIES OF STATE

I. THE MAIN STANSTED APPLICATION

98. For the reasons explained in paragraphs 12-56 of this letter, the Secretaries of State for the Environment and for Transport hereby grant planning permission for the expansion of Stansted Airport by the provision of a new passenger terminal complex with a capacity of about 15 million passengers per annum east of the existing runway, cargo handling and general aviation facilities, hotel accommodation, taxiways (including the widening of a proposed taxiway to be used as an emergency runway), associated facilities (including infrastructure for aircraft maintenance and other tenants' developments) and related road access in accordance with planning application No. UTT/1150/80 dated 25 July 1980, subject to the following conditions:

1. The buildings and structures referred to in Condition 6(1)(a) and (b) shall be designed so that they can be constructed in phases; and shall be so constructed.
2. The phasing of the construction of the buildings and structures referred to in condition 6(1)(a) and (b) (including the size of each phase and the time at which its construction is to be begun) shall be as may be agreed from time to time with the local planning authority: provided that in the first phase of construction of the terminal building, its net floor area (excluding any plant rooms, piers and satellites, airside coach station, tracked transit station and other ancillary buildings) shall not exceed 50,000 sq metres.
3. When all phases of the development are completed, the total net floor area of the terminal building (excluding any plant rooms, piers and satellites, airside coach station, tracked transit station and other ancillary buildings) shall not exceed 90,000 sq metres.
4. At no time shall the total net office floorspace contained in the terminal building and in the terminal support area exceed 25,000 sq metres; and except with the written agreement of the local planning authority not more than 5,000 sq metres of such floorspace shall be contained in the terminal support area.
5. Notwithstanding the requirements of any other condition of this permission no development authorised by this permission shall be begun until a scheme of construction work in relation to preliminary site works has been submitted to the local planning authority and approved; and any such scheme shall indicate:-

- (i) means of access to the site for the carrying out of preliminary site works;
- (ii) the siting of all construction camps on and off site;
- (iii) the overall phasing of preliminary site works;
- (iv) trees and hedges to be cleared;
- (v) temporary noise protection measures.

6. Before any work on the site is commenced, other than such preliminary site works as may be approved under Condition 5, general layout plans of the development shall be submitted to the local planning authority and approved; such plans shall be in general accordance with the plan submitted at the inquiry and known as Inquiry Document No. BAA 130C and shall indicate:-

(1) the location of -

- (a) the terminal building, including piers;
- (b) aprons associated with the terminal building; such aprons being located so as not to extend north of a line connecting national grid co-ordinate points 556200E/224350N and 555870E/224635N, nor east of a line joining co-ordinate points 555145E/223140N and 556200E/224350N;
- (c) noise attenuation works including a noise attenuation bund within the north-east boundary of the site;
- (d) provision for car parking (indicating the number of spaces to be provided and the proposed allocation between passenger and staff parking);
- (e) the main internal vehicular and pedestrian circulation system, the means of access to and from the public roads system, and road improvements and road junction improvements;
- (f) the main taxiway system within the site, including a taxiway capable of being used as an emergency runway in the event of the main runway becoming unserviceable for any reason;
- (g) the areas for cargo-handling and associated aprons;
- (h) the areas for the development of aircraft maintenance facilities and associated aprons;
- (i) hotels within the site;
- (j) surface water balancing ponds;
- (k) the aviation fuel pipeline required by Condition 13.

(2) Provision for public transport facilities including a British Rail link, railway station and bus station.

7. Before any phase of the development (other than preliminary site-works approved under Condition 5) is commenced details of the following matters, to the extent that those matters are relevant to such phase of the development, shall be submitted to the local planning authority and approved: the details being consistent with the overall plans referred to in Condition 6:-

(a) full elevations and sections, including height and massing of buildings, structures and apparatus and the materials and colour schemes to be used for external surfaces;

(b) the siting, height and construction of banks, acoustic screens, baffles and other permanent or temporary noise protection works whether on the application site or on other land owned by the airports authority outside the application site;

(c) main roads and junctions and means of access to and from any existing highway;

(d) public and staff car parking facilities;

(e) any transit link to and from the terminal, the piers or any other part of the airport;

(f) foul and surface water drainage works, including foul drainage connections to the trunk sewerage system, together with any necessary pumping station, any surface drainage balancing ponds and any means of pollution prevention to be employed.

8. Application for approval of the details of the first phase of the development shall be made (under Condition 7) before the expiration of the period of five years from the date of this permission; and application for approval of the details of later phases of the development shall be made before the expiration of the period of twenty years from the date of this permission.

9. The first phase of the development hereby permitted must be commenced before whichever is the later of the following dates:-

(a) the expiration of five years from the date of this permission, or

(b) the expiration of two years from the date of the final approval of details relating to that phase which shall have been submitted in accordance with Condition 7 above, or in the case of approval on different dates, the date of the final approval of the last such detail to be approved.

10. Lighting shall, so far as is consistent with airport operational requirements, be so designed as to minimise the emission of light to the area surrounding the airport.

11. No development (other than preliminary site works approved under Condition 5) shall take place until there have been submitted to the local planning authority and approved:-

(a) a scheme of landscaping, which shall include indications of all existing trees and hedgerows on the land, and details of any of them to be retained, together with measures to be taken for their protection in the course of development;

(b) a scheme for the implementation of the landscaping, phased according to the progress of the development.

12. All planting, seeding or turfing comprised in the landscaping scheme as approved under Condition 11 (a) shall be carried out in accordance with the implementation scheme approved under Condition 11 (b) and any trees or plants which, within a period of 5 years from planting, die, are removed or become seriously damaged shall be replaced in the next planting season with others of similar size and species unless the local planning authority otherwise agrees in writing.

13. Before the first phase of the terminal building is brought into operation, a pipeline for the supply of aviation fuel shall be constructed from the site boundary to the airport fuel farm; and such pipeline shall be brought into use as the principal means of supply of aviation fuel to the airport at the earliest practicable date.

14. Except with the written agreement of the local planning authority the heights above finished ground level of buildings, works or structures of the following descriptions shall not exceed the relevant heights indicated in the list below:

Hangar for aircraft maintenance	35m
Terminal building	15m above finished ground level of the landside forecourt
Cargo building	11m
Car park	ground level
Hotel (terminal area)	5 storeys
Hotel (not terminal area)	3 storeys
Offices (outside the main terminal building)	3 storeys

15. Before each phase of the development is first brought into operation, or within such period thereafter as may be agreed in writing with the local planning authority, the car parking facilities for that phase as approved in accordance with Condition 7 shall be laid out.

16. The first phase of the terminal building shall not be brought into operation until the following works have been completed:-

(a) a road link connecting the Birchanger Interchange and the terminal building in accordance with the layout plan approved under Condition 6, such link to include -

(i) the surface-level roundabout at the Primary Airport Junction shown as J2 on the plan submitted at the inquiry and known as Inquiry Document No BAA130C;

(ii) the primary airport road R2 (between J2 and J3) including earthworks that will be necessary when the road is a dual two-lane carriageway;

(b) junction J3 as shown on the plan submitted at the inquiry and known as Inquiry Document No BAA130C including approach roads to car parks;

(c) a covered public bus station and stands and appropriate means of access thereto from the terminal.

17. No development (other than preliminary site works approved under Condition 5) shall be begun until a roadway suitable for the use of construction traffic has been constructed between the Birchanger roundabout and a point east of Burylodge Lane, in accordance with plans submitted to the local planning authority and approved.

18. All practicable steps shall be taken to secure that:

(a) upon completion of the roadway referred to in Condition 17 all construction traffic shall enter and leave the site at the Birchanger roundabout except at any time when such access is prevented by works being undertaken at the Birchanger roundabout; and

(b) prior to the completion of the said roadway and at any time that access to the site for construction traffic from the Birchanger roundabout is prevented by works being undertaken at the roundabout, construction traffic shall enter or leave the site only by way of Burylodge Lane and shall be routed via the A120.

19. Following completion of the roadworks referred to in Condition 16 (a), (b) and (c) the means of access to the site for construction traffic by way of the A120 and Burylodge Lane shall be closed in such manner as may be agreed with the local planning authority.

20. Before any construction works (other than preliminary site works approved under Condition 5) are commenced on the site and at all times during the carrying out of such construction works, temporary noise protection measures shall be provided in accordance with a scheme previously agreed with the local planning authority, and the practices set out in such a scheme shall be observed.

21. The routes to be used by contractors' vehicles moving to and from the site shall be agreed in writing with the local planning authority prior to the commencement of any works pursuant to this permission.

22. No soil resulting from excavation shall be removed from the site except with the prior written agreement of the local planning authority.

23. No part of the buildings or structures resulting from the development shall be brought into operation until the noise attenuation bund within the north east boundary of the site, referred to in Condition 6(i)(c), has been constructed.

24. Other noise protection works shall be constructed in accordance with a scheme to be submitted to the local planning authority and approved.

25. The airport authority shall take all reasonably practicable measures to minimise the need to use Auxiliary Power Units (APUs), Ground Power Units (GPUs) and air start machines and, in particular, shall before the first phase of the terminal building is brought into operation provide a supply of electric power at such places and in such manner as may be agreed with the local planning authority.

26. Where the local planning authority have notified the airport authority in writing that any part of the site (specified in their notice) is of archaeological importance, no works authorised by this permission shall be carried out in that part of the site unless prior notice in writing of the intention to carry out such works has been given to the local planning authority, such notice to be given at least 2 clear calendar months before commencement of the works; and full access to the land on which the works are to be carried out shall be afforded, to such persons or bodies as may be designated by the local planning authority, for archaeological excavation and recording both before and during the carrying out of the works.

II THE BURTON END APPLICATION

99. For the reasons explained in paragraph 65 of this letter the Secretary of State for the Environment hereby refuses planning permission for the erection of three dwelling houses on a site at Burton End.

III THE MOBILE HOMES APPLICATION

100. For the reasons explained in paragraphs 69-72 of this letter the Secretary of State for the Environment hereby grants planning permission for use of a site on land south of the former railway line and east of the B183, Takeley, as a mobile home park, including the construction of buildings ancillary to such use and the formation of access to the highway, in accordance with planning application No. UTT/541/81 dated 31 March 1981 subject to the following conditions;

1. Approval of the details of the siting design and external appearance of the buildings hereby permitted and the means of access to the site, which shall include a pedestrian access at the north-east of the site, (hereinafter called "the reserved matters") shall be obtained from the local planning authority.
2. Application for approval of the reserved matters shall be made to the local planning authority before the expiration of three years from the date of this permission.
3. The development hereby permitted shall be begun either before the expiration of five years from the date of this permission, or before the expiration of two years from the date of approval of the last of the reserved matters to be approved, whichever is the later.
4. Before the development is begun, a plan showing the layout of the site (which shall include an amenity area) shall be submitted to the local planning authority and approved.
5. The use hereby permitted shall not be begun until there has been submitted to the local planning authority and approved a scheme of landscaping, which shall include indication of all existing trees and hedgerows on the land, and details of any to be retained, together with measures for their protection in the course of development.
6. All planting, seeding or turfing comprised in the approved details of landscaping shall be carried out in the first planting and seeding season following the commencement of the use hereby permitted, and any trees or plants which within a period of 5 years from the commencement of the said use die, are removed or become seriously damaged or diseased shall be replaced in the next planting season with others of similar size and species, unless the local planning authority gives written consent to any variation.

7. The site shall initially be used only to accommodate mobile homes relocated from the existing Mount, Connought and Hall sites, and the number of such relocated mobile homes shall not at any time exceed 250.
8. When a mobile home relocated from the Mount site, the Connought site or the Hall site is removed from this site, no mobile home shall be allowed onto the site in its place unless the total number of mobile homes on the site at the time is below 125; and at no time after the first occasion on which the number of mobile homes on the site is reduced to 125 or less shall the number present on the site at any one time exceed that figure.

IV THE AIRPORT ROADS APPLICATION

101. For the reasons explained in paragraph 76 of this letter, the Secretaries of State for the Environment and for Transport hereby grant planning permission for construction of connections to the A120 and M11, the airport distributional junction and a section of the primary airport road, in accordance with planning application No UTT/168/81 dated 18 February 1981 subject to the following conditions:

1. Approval of the details of the design of the roads shall be obtained from the local planning authority.
2. Application for approval of details under Condition 1 shall be made before the expiration of five years from the date of this permission.
3. The development hereby permitted shall be begun on or before whichever is the later of the following dates
 - (a) the expiration of seven years from the date of this permission; or
 - (b) the expiration of two years from the final approval of the matters referred to in Condition 1 above or in the case of approval on different dates the final approval of the last such matter to be approved.

V. THE LISTED BUILDING CONSENT APPLICATIONS

102. The Secretary of State for the Environment, for the reasons explained in paragraphs 79-81 of this letter, hereby grants listed building consent for demolition of:

Blunts, in accordance with application No. LB/UTT/902/80;

Little Coopers Cottage, in accordance with application No. LB/UTT/903/80;

Great Coopers Farmhouse, in accordance with application No. LB/UTT/907/80;

Barn to the east of Great Coopers Farmhouse, in accordance with application No. LB/UTT/908/80;

L- plan range of byres and stabling to north west of Little Coopers Farmhouse in accordance with application No. LB/UTT/906/80,

Little Coopers Farmhouse, in accordance with application No. LB/UTT/904/80;

Barns to west of Little Coopers Farmhouse in accordance with application No. LB/UTT/905/80;

all at Coopers End, Takeley, Essex, subject to the following conditions:

1. The works to which this consent relates must be begun not later than the expiration of the period of seven years from the date of this letter; and
2. No demolition shall be begun before a contract for the carrying out of works of redevelopment of the site has been made.

103. Attention is drawn to section 55(2)(b) of the Town and Country Planning Act 1971, the effect of which is that demolition of the listed buildings may not be undertaken (despite the terms of the consent) until notice of the proposal has been given to the Royal Commission on Historical Monuments, Fortress House, 23 Savile Row, London W1X 1AB, and the Commission subsequently have either been given reasonable access to the buildings, the subject of the consent, or have stated that they have completed their record or that they do not wish to record them.

VI THE SCHEDULED MONUMENT CONSENT APPLICATION

104. For the reasons explained in paragraph 83 above, the decision on this application is deferred.

VII THE STANSTED AIRPORT-LONDON COMPULSORY PURCHASE (NO 1) ORDER 1980

105. For the reasons explained in paragraph 85 above, the Secretary of State for Transport has decided to confirm the order subject to modifications.

VIII HIGHWAY PROPOSALS MADE BY THE DEPARTMENT OF TRANSPORT

106. For the reasons explained in paragraphs 86-94 above, the Secretaries of State have decided that the orders and scheme should be made.

IX THE STOPPING UP AND DIVERSION OF HIGHWAYS (COUNTY OF ESSEX) (NO) ORDER 198

107. For the reasons explained in paragraphs 95-97 the Secretary of State for Transport has decided that the order should be made.

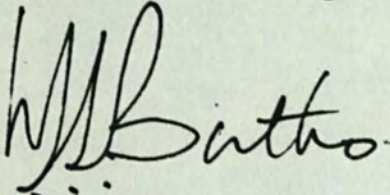
108. Attention is drawn to the fact that an applicant for any consent, agreement or approval required by a condition of the planning permissions granted by this letter has statutory right of appeal to the Secretary of State if consent, agreement or approval is refused, or granted conditionally or if the local planning authority fail to give notice of their decision within the prescribed period. Attention is also drawn to the enclosed note relating to the requirements of the Chronically Sick and Disabled Persons Act 1970.

109. A separate note is attached to this letter setting out the circumstances in which the validity of the Secretary of States' decisions on the applications for planning permission and for listed building consent may be challenged by the making of an application to the High Court.

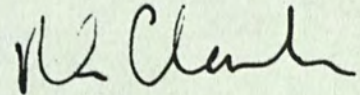
110. This letter does not convey any approval or consent required under any enactment, bye-law, Order or Regulation other than sections 23, 55 and 56 of the Town and Country Planning Act 1971.

111. Copies of this letter have been sent to Uttlesford District Council and to each party who was heard at the inquiry.

We are Gentlemen
Your obedient Servants



W J S BATHO
Under Secretary, Regional Director



R E CLARKE
Under Secretary, Civil
Aviation Policy

GRS 850

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FM WASHINGTON 042104Z JUN 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 1757 DATED 4 JUNE

MY TELNO 1712: LAKER SETTLEMENT NEGOTIATIONS

1. PARK (LINKLATERS) AND ROSDEITCHER (BA'S ATTORNEY) GAVE FIRST SECRETARY CAS AN ACCOUNT OF THE INFORMAL AND RESTRICTED MEETING CONDUCTED IN JUDGE GREENE'S CHAMBERS ON JUNE 3.

ALTHOUGH THE OUTSTANDING DIFFICULTIES HAD NOT BEEN RESOLVED, THE MEETING HAD PRODUCED A SATISFACTORY RESULT AND A FURTHER RESTRICTED MEETING WITH THE JUDGE WILL BE CONVENED ON JUNE 13.

2. THE MEETING HAD FOCUSED ON FOUR ISSUES ALL OF WHICH HAD BEEN THE SUBJECT OF LENGTHY DISCUSSIONS BETWEEN THE PARTIES SINCE THE PREVIOUS CONFERENCE WITH THE JUDGE:-

(A) SIR FREDDIE LAKER'S INSISTANCE ON A COMMITMENT BY THE DEFENDANT AIRLINES THAT THEY WOULD NOT DISCRIMINATE AGAINST ANY FUTURE AIRLINE OPERATED BY HIM HAD EMERGED OVER THE PREVIOUS DAYS AS A PROBLEM ONLY FOR THE EUROPEAN AIRLINES : BA, BCAL, TWA AND PAN AM WERE PREPARED TO MAKE A COMMITMENT GUARANTEEING THE DESIRED 'WARMTH' BUT THE EUROPEAN AIRLINES WERE NOT. ROSDEITCHER HAD EXPLAINED TO THE JUDGE THAT THERE WAS A PROBLEM THAT FUTURE LAW SUITS MIGHT ARISE OUT OF ANY SUCH COMMITMENT. JUDGE GREENE SAID THAT IT SHOULD BE POSSIBLE TO OVERCOME THIS PROBLEM BY DIVISING AN ARBITRATION PROVISION AND THAT HE CONSIDERED IT APPROPRIATE FOR THE AIRLINES TO MAKE THE KIND OF COMMITMENT WHICH SIR FREDDIE LAKER WAS SEEKING.

(B) SIR FREDDIE LAKER'S UNWILLINGNESS TO GIVE UP HIS CLAIMS AGAINST THE MIDLAND BANK WAS MORE PROBLEMATIC AND THE REASONS FOR IT MORE OBSCURE. JUDGE GREENE CONCLUDED THAT SIR FREDDIE LAKER'S PROBLEMS IN THIS RESPECT WERE 'INCAPABLE OF DEFINITION'.

IT WAS IN ANY EVENT AGREED THAT IT WOULD BE DESIRABLE FOR SIR FREDDIE TO DISCUSS THE MATTER DIRECTLY WITH THE MIDLAND BANK (SIR FREDDIE LAKER'S GRIEVANCES AGAINST THE MIDLAND BANK APPARENTLY DATE BACK TO 1946 AND MAY NOT BE ENTIRELY RATIONAL).

(C) THE DEFENDANTS REQUIREMENT THAT THE LAKER COMPANIES ESTABLISHED AFTER THE BANKRUPTCY OF LAKER AIRWAYS SHOULD GIVE UP CLAIMS AGAINST THEM WAS ALSO PROBLEMATIC. SIR FREDDIE LAKER EQUIVOCATED AS TO HIS OWN WILLINGNESS TO GIVE UP THESE CLAIMS BUT WAS DEALT WITH FIRMLY BY THE JUDGE ON THIS POINT. MORE IMPORTANTLY THE WILLINGNESS OF LONRHO WHICH HAD A 50 PERCENT STAKE IN THE COMPANIES CONCERNED TO GIVE UP ITS CLAIMS HAD YET TO BE PUT TO THE TEST. JUDGE GREENE THOUGHT THAT IT WOULD BE APPROPRIATE FOR BOTH HALVES OF THE LONRHO-LAKER PARTNERSHIP TO UNDERTAKE NOT TO PURSUE FURTHER CLAIMS AND IT WAS AGREED THAT FURTHER DISCUSSIONS INTENDED TO ACHIEVE THIS RESULT WOULD NEED TO BE HELD OVER THE NEXT FEW DAYS.

(D) BECKMAN HANDED OVER TO THE JUDGE (BUT NOT TO PARK OR ROSDEITCHER) HIS CONTRACT ON THE BASIS OF WHICH HE SOUGHT TO JUSTIFY HIS CLAIM FOR DOLLARS 65 M. IN RESPONSE TO THIS JUDGE GREENE READ OUT A STATEMENT OF THE LEGAL PRACTICES OF THE

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/AMERICAN

AMERICAN BAR ACCORDING TO WHICH IT WAS DEEMED UNETHICAL TO CHARGE AN EXCESSIVE FEE. THE JUDGE SAID THAT DOLLARS 65 M WOULD INDEED AMOUNT

TO AN EXCESSIVE FEE AND IN CONSEQUENCE THE TERMS OF THE LAWYER'S CONTRACT DID NOT SUBSTANTIATE BECKMAN'S CLAIM. THE JUDGE THEREFORE ASKED BECKMAN TO PRODUCE A STATEMENT OF THE LIQUIDATOR'S LAWYERS' TIME CHARGES AND EXPENSES SO THAT HE COULD EXAMINE THIS AND MAKE RECOMMENDATIONS TO THE DEFENDANTS CONCERNING AN APPROPRIATE PAYMENT. THE IMPLICATION WAS THAT JUDGE GREENE WAS LIKELY TO RECOMMEND PAYMENT SOMEWHAT IN EXCESS OF DOLLARS 8M AND BECKMAN SEEMED CONTENT TO GO ALONG WITH THIS PROCEDURE.

3. DURING THE MEETING WITH JUDGE GREENE NEITHER BECKMAN NOR SIR FREDDIE LAKER DEMURED SO FAR AS AN UNDERTAKING TO RETURN ALL DOCUMENTS PRODUCED IN DISCOVERY WAS CONCERNED. THE ASSUMPTION IS THAT IN PRACTICE BOTH SIR FREDDIE LAKER AND BECKMAN WILL NO DOUBT RETAIN COPIES OF VARIOUS DOCUMENTS BUT THAT THEIR USE FOR ANY MORE DAMAGING PURPOSES THAN EG FOR SIR FREDDIE LAKER'S MEMOIRS WOULD BE EFFECTIVELY PREVENTED.

4. PARK SUGGESTED TO HUNT THAT THE CHAIRMAN OF MIDLAND BANK WAS LIKELY TO BE RELUCTANT TO SEE SIR FREDDIE LAKER TO ALLOW HIM TO AIR HIS GRIEVANCES (SEE PARAGRAPH 2(B) ABOVE). PARK THOUGHT IT HIGHLY DESIRABLE THAT SIR FREDDIE SHOULD BE GIVEN A HEARING BY THE CHAIRMAN OF THE BANK AS SOON AS POSSIBLE IN ORDER TO ESTABLISH WHETHER OR NOT THERE WAS ANY SUBSTANCE TO THESE GRIEVANCES AND SUGGESTED THAT A REQUEST FROM THE BANK OF ENGLAND TO THE MIDLAND BANK TO GIVE SIR FREDDIE A FAIR HEARING MIGHT BE APPROPRIATE.

5. PARK ALSO RAISED THE POSSIBILITY OF HMG BRINGING ITS INFLUENCE TO BEAR ON LONRHO IN AN EFFORT TO SECURE THE LATTER'S AGREEMENT NOT TO PURSUE ANY CLAIMS AGAINST THE DEFENDANTS ARISING FROM THE DEMISE OF THE COMPANIES FORMED BY THE SHORT LIVED PARTNERSHIP WITH LAKER.

6. ADVANCE COPIES TO KNIGHTON STEVENS HOLMES FORTNAM DTP, GRAY MAED FCO, AUST LEGAL ADVISERS FCO, AYLING DTI, GARDINER LAW OFFICERS DEPT.

WRIGHT

US ANTI-TRUST ACTION AGAINST BRITISH AIRLINES

LIMITED

MAED

NAD

NEWS D

ERD

PLANNING STAFF

LEGAL ADVISERS

PS

PS/MR RIFKIND

PS/MR RENTON

PS/PUS

MR BRAITHWAITE

MR O'NEILL

MR DAVID THOMAS

ADDITIONAL DISTRIBUTION

US ANTI-TRUST ACTION AGAINST BRITISH AIRLINE

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Prime Minister

LAKER: ATTEMPTED SETTLEMENT

My minute of 3rd May reported on BA's proposed terms for settling out of court the action brought by the Laker Airways liquidator, and the offers they proposed to make to the liquidator's US lawyer and to Sir Freddie Laker. You and other colleagues were content for BA to proceed on this basis, and as a result they were able to obtain a further extension from the court to 30 May. I understand that this hearing went satisfactorily; the main outstanding issue is the amount of the plaintiff's US lawyers' fee which BA are still hopeful can be settled at about \$8m.

In my minute of 4 April, I explained that BA would also need to deal with the class actions (brought by lawyers on behalf of aggrieved transatlantic travellers who claim that the Laker failure caused them to have to pay higher air fares) before our lawyers would be able to satisfy themselves that the problems caused by the anti-trust litigation have been dispelled. In these actions, BA are co-defendants with Pan American and Trans World Airlines. BA have now agreed on the outline of a settlement with the other defendants and with the plaintiff's lawyers, for which they are now seeking my agreement.

The basis of the proposed settlement is that the defendants would issue coupons to a total value of \$25m (with an additional contingency of \$5m to allow for a larger than expected number of claims), valid for 5 years which could be used by claimants against the cost of a further transatlantic flight or flights. The defendants would



have to advertise for claims, which they would expect to see substantiated. The value of each coupon would be determined by the number of valid claims submitted, ie the larger the number of claims, the lower the value of each coupon. But limits per coupon would be set, the maximum being \$50 and the minimum \$20. The coupons would be valid on all UK-US flights and on all fare types. Other airlines would be free to honour the coupons, but they would find it expensive, because the defendants do not intend to compensate them for doing so. The only immediate cash payments required would be about \$5m split equally between the three defendants to pay for the advertising and legal costs.

It is ^{impossible}~~important~~ to forecast what BA's share of the eventual cost within the ceiling will be. This will depend on which airlines claimants decide to use the coupons, though BA believe that the US airlines will take more than a proportionate share, since they have more of the market and American traffic to the UK exceeds the demand in the opposite direction. Moreover, the availability of the coupons might help to tap some additional demand.

The direct cost to BA of these proposals is much more modest than I had feared. Settlement of this case is highly desirable. I understand that better terms are not likely to be negotiable, and I am sure that we should agree to them. I should be grateful to know by the end of this week whether you or other colleagues see any objection.

I should however mention that the timetable BA envisage for the advertising and submission of claims runs almost to the end of the year, which could put at risk our plans to privatise BA within the current financial year. That is to be avoided if we possibly can. I am having this point investigated and shall report further on privatisation prospects.



Copies of this minute go to the members of MISC 112
and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'NR' with a flourish at the end.

NICHOLAS RIDLEY

4 June 1985

Aerospace Future of BA Pt4



(TPM)



5 JUN 1985

CONFIDENTIAL

824



10 DOWNING STREET

From the Private Secretary

31 May 1985

Dear Richard.

AIRPORTS DECISIONS AND WHITE PAPER

The Prime Minister has seen and was content with the draft statement attached to your Secretary of State's minute of 30 May. She is also content that a statement should be made on Wednesday 5 June.

I am copying this letter to David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), and Neil Kingham (Minister for Housing and Construction's Office).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

Richard Allan, Esq.,
Department of Transport

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T.F. to see

CC NO!

Prime Minister

Prime Minister

Any comments?

No not ✓ 30/5

AIRPORTS DECISIONS AND WHITE PAPER

I am grateful to you and colleagues for the quick and helpful comments I have received on the draft White Paper on Airports Policy circulated with my minute of 16 May. The White Paper has been amended accordingly and I have also taken account of some drafting changes recommended by Counsel, whom my officials consulted in parallel. None of these raised policy issues.

The White Paper together with the Stansted and Heathrow decision letters will be ready for publication in the week following the Whitsun recess. The Leader of the House and the Chief Whip have now agreed that I should make a statement on Wednesday 5 June. I propose that David Trefgarne should make a statement in the Lords at the same time.

I said in my minute of 16 May that I would circulate a draft of the statement which I propose to make to the House on publication. This is now attached. I would be grateful if any comments could reach me by noon Monday 3 June. I also attach defensive briefing on procedural questions which are likely to be raised.

I will also be discussing with the Leader and the Chief Whip the date and type of motion for the debate on the Government's airports policy. We are committed to holding such a debate and we have promised the House that it would be able to vote on a substantive motion, if it so wishes.

(The debate on the Inspector's report in January was, for procedural and legal reasons, held on a motion to adjourn the House.) As you know, the planning decisions on the development of Stansted and Heathrow are not subject to the approval of Parliament. The motion for the forthcoming debate should not therefore mention these decisions specifically.

However, I am sure that opponents of the Stansted development, including those on our side of the House, will attempt to table amendments or alternative motions seeking to isolate and reject the planning decisions. We should therefore aim to draft a motion noting or approving the Government's airports policy as a whole behind which the various interests within the Party can unite. This is no easy task and I do not think it is possible to devise a magic formula. However I hope the package we have put together in the White Paper will command the support we need to get the decisions through. I will make use of the time between the announcement and the debate to try and persuade those who have doubts, and I would of course be grateful if you and other Ministerial colleagues could do likewise, if the opportunity arises.

I am sending copies of this minute and of the draft statement to members of the Cabinet, and to the Attorney General, the Chief Whip, the Paymaster General, the Financial Secretary, the Minister for Housing and Construction, the Parliamentary Under Secretary of State for the Armed Forces and Sir Robert Armstrong.

R. A. Allan.
(Private Secretary)

for NICHOLAS RIDLEY

30 May 1985

(approved by the Secretary of State
and signed in his absence.)

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With permission, Mr Speaker, I should like to make a statement about the Government's policy for airports.

It is the responsibility of Government to ensure that sufficient capacity can be provided at UK Airports, where it is required, and in due time. Our policy of encouraging competition in the air requires that there should be enough capacity, available, (so far as is possible) to all airlines on equal terms. We cannot direct flights to airports they do not wish to use: airports must use the opportunities open to them to attract as many flights as they can through providing a cheap and efficient service, for the benefit of the passengers.

To make airport managements more responsive to their customers, and to further assist the growth of our most important and successful airline industry, the Government has decided to introduce legislation first to make every major airport into a limited Company. And second: to convert the BAA into a holding company and to privatise it with its 7 airport companies. I hope that Local Authorities will follow this lead and sell their companies too; but we do not intend to force them to do so. A system of regulation will be proposed to control the monopoly aspect of airports (including charges), to regulate traffic distribution when necessary, and to safeguard essential national interests.

Our Air transport industry is the envy of the world and a great success story. It has a turnover of £4 billion, employs 85,000 people and is growing; and earns £½ bn of foreign exchange. It is essential to the continuation

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of this success, and to the provision of more jobs, that there is sufficient airport capacity. Equally important, this must be done with minimum damage to the environment and to the lives of people living near airports.

It is with solving this dilemma - adequate capacity with minimum environmental damage - that first the Inspector at the Airports Enquiries, and more latterly the Government, has had to grapple. I would like to pay tribute again to Mr Graham Eyre QC for his thorough and comprehensive report. In announcing our decisions today, I want to stress that we have sought a solution which meets both objectives as far as is humanly possible.

The Government intends to do everything it can to increase flights to and from the Regional Airports. Traffic grew by 12% last year, and is expected to increase by one-third more by 1990.

We will continue to study, with representatives of Regional Airports, how to increase traffic still further. We will be ready to approve worthwhile investment in new facilities, and the improvement of road and rail links where they are justified. We will ensure that Regional Airports compete on fair terms with BAA airports. We recognise the importance of maintaining access for domestic flights to Heathrow and Gatwick.

Even after taking account of all these efforts to attract traffic to the Regions and away from the South East, the Government, after careful evaluation, have concluded that it is necessary to provide capacity in the South East for between 72 and 79 mppa by 1995. This is consistent with the Inspector's planning figure of 75 mppa. We intend to

achieve that figure as follows:-

First) My Rt Hon Friend the Secretary of State for the Environment recently announced approval of the STOLport in London's Docklands. This will provide 1 mppa.

Second) The Government has decided to invite Luton Borough Council to come forward with proposals (which would be subject to the necessary planning procedures) to increase the capacity of Luton Airport from its present throughput of 2 mppa to 5 mppa.

Third) Gatwick Airport is expected by that time to be capable on present plans of handling 21 to 23 mppa. We have no plans for a second runway at Gatwick.

Fourth) The capacity at Heathrow in 1995, when all 4 terminals will be in full operation, is expected to be 38-42 mppa. It is very possible that this will be adequate to handle as big a through-put of passengers as runway capacity will allow. The Government has decided to accept the Inspector's recommendation that Air Transport Movements at Heathrow should not be artificially constrained, and will ask the House to accept the abandonment of the proposed limit of 275,000 air transport movements a year. Even with this, and with all foreseeable technological improvements to the full use of runways it seems likely that runway capacity, not terminal capacity, will be the limiting factor at Heathrow for some years ahead. Nevertheless, it seems prudent to ask the BAA to pursue with the Thames Water Authority the possibility of moving the Perry Oaks Sludge Works elsewhere. Only if (and when) this ^{can be} has been done, and in the light of traffic forecasts at that time, would it seem sensible to see whether extra

Why more if
not going ahead
with T5?

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terminal capacity should be provided and if so how much. My Rt Hon Friend the Secretary of State for the Environment has turned down Uttlesford DC's application for planning permission for Terminal 5; and no terminal can be built there in the future without planning permission. We are setting up a study of improved surface access to Heathrow.

Fifth) Stansted. Any Hon Member who has been doing his arithmetic will now know that to achieve our objective of meeting demand in the South East significant extra capacity will be needed if the growth of our successful aviation industry is not to be stifled. My Rt Hon Friend the Secretary of State for the Environment and I have therefore decided to accept the Inspector's recommendation to the extent of granting the BAA outline planning permission for development at Stansted. The Inspector recommended initial permission for 15 mppa, rising later to 25 mppa at Stansted. Although we have granted permission for the 15 mppa recommended by the Inspector, we have decided to impose a condition limiting the first phase of development to 7-8 mppa. The initial development will thus amount to less than one-third of what the Inspector recommended ultimately. As an additional safeguard and subject to Parliament giving me the necessary powers, I will impose an initial limit on Air Transport Movements there equivalent to 7-8 mppa. Any further increases in traffic at Stansted would be subject to control by Parliament, by means of an Affirmative Resolution. As a result, further growth of traffic at Stansted can only take place when it is seen to be necessary,

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joke
needed?

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with Parliament having the decisive role. We have rejected the possibility of the construction of a second runway at Stansted.

The Decision letters on the Planning application and the White Paper, all of which are now available in the Vote Office, set out the arguments for these decisions at length and with clarity. When they have read them, I hope that hon and Rt Hon Members will feel that our responsibilities to all the many important and often divergent interests concerned have been adequately discharged.

DEFENSIVE BRIEFING ON PROCEDURAL MATTERS

Q1 Parliament should be allowed to express its views before not after the decisions are taken

A full debate on the Inspector's Report was held on 30 January and I have borne in mind all the views expressed in that debate.

Q2 The decisions should be submitted to Parliament for approval

Under legislation enacted by Parliament (the Planning Acts) planning decisions which are not taken by local authorities are taken by the Secretary of State for the Environment and, when the application is made by a statutory undertaker, by the appropriate Minister. Where a public inquiry has been held the decisions are based on the Inspector's Report and all other material factors, following a careful and well-understood quasi-judicial process. They are not subject to Parliament's approval.

Q3 Will there be another debate and a vote on a substantive motion to enable the House to approve or reject the decisions?

The Government has undertaken to provide an opportunity for the House to debate and, if it so wishes, to vote on the Government's airports policy. My Rt hon Friend will be making arrangements for such a debate to take place as soon as hon Members have had a chance to study the Government's policy proposals.

Q4 What if the House rejects the planning decisions?

A planning permission has a validity in terms of planning law which a vote in the House could not affect.

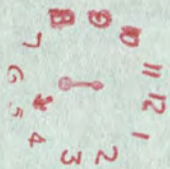
Q5 Can a planning permission be withdrawn?

My Rt hon Friend the Secretary of State for the Environment has the power to revoke or modify a permission where he considers he should, subject in certain circumstances to the payment of compensation by the local planning authority.

Q6 Should not Parliament have the last word on whether such a major development should be permitted? The Government should proceed by Special Development Order as was done in the case of Windscale

These proposals have been the subject of the most detailed and exhaustive investigation in public and Parliament; the Inspector's Report was published in advance of the decisions and Parliament has had an opportunity to debate the issues fully. To change procedures at this stage would cause considerable further delay and a number of related matters (roads, compulsory purchase orders, etc) cannot be dealt with under an SDO. Moreover, when the Government announced its proposals in 1979, there was strong support in Parliament and outside for the use of normal planning procedures including a wide-ranging public Inquiry.

AEROSPACE: Future of BA: Pt 4:



130 MAY 1985



FCS/85/145

SECRETARY OF STATE FOR TRANSPORT

UK/US Civil Aviation: Bermuda 2

- with AT?*
1. Thank you for your letter of 13 May about our objectives and negotiating strategy in dealings with the United States over civil aviation.
 2. I am glad to see that we are in agreement on the need to replace the Capacity Annex to Bermuda 2 with arrangements which will safeguard the interests of our airlines.
 3. I think you have misunderstood what I said about the potential advantages of liberalisation. I do not of course advocate giving the Americans "what they want" without regard to our own interests. The concept of greater liberalisation in transport operations, in civil aviation as in other sectors, is something to which we are as a Government committed. In the present context, we have an opportunity, as you say, to put the Americans on the spot as to just how far they are really ready to expose their airlines to greater competition, and to secure what we want on capacity. We have no need to be defensive.
 4. As to the longer term, we are in complete agreement that anti-trust must be taken up again in due course, but only after the Laker suit and the Class Actions have finally been disposed of.

CONFIDENTIAL



5. Given the degree of understanding between us, I agree that there is no need for a further meeting of MISC 112 at present.

6. I am copying this minute to the other members of MISC 112 and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
22 May 1985

CONFIDENTIAL

22 MAY 1985

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham St
LONDON
SW1P 3EB

22 May 1985

Dear Nick,

DRAFT WHITE PAPER ON AIRPORTS POLICY

Thank you for the copy of your minute of 16 May to the Prime Minister.

I am writing to confirm that I am content specifically with the aspects of the White Paper on which I have a direct interest and more generally with all the decisions proposed and their presentation. I therefore support publication of the White Paper to the timetable you propose.

I am copying this to the Prime Minister, other members of the Cabinet, the Attorney General, the Chief Whip, the Paymaster General, the Financial Secretary, the Minister for Housing and Construction and to Sir Robert Armstrong.

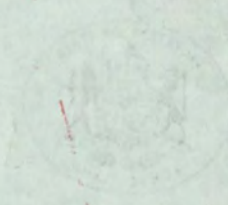
Yours sincerely,

George

Aerospace: BA P+4.

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22 MAY 1985



fe VC
be Robin Butler

PRIME MINISTER

LORD KING

Lord King rang this morning to say that when he sees you on Friday he will:

1. Ask for nothing.
2. Has no problems.
3. Just wants a general chat about one or two things not related to BA.
4. Just wants to help.

(CAROLINE RYDER)

21 May 1985

060

File

AT



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

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Secretary of State for Trade and Industry

21 May 1985

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Buildings
Whitehall
London SW1

D Michael,

BRITISH AEROSPACE SALE

We briefly discussed the difficulty that arose last week during the British Aerospace share sale and I promised I would write to you to explain what had occurred. Somehow a letter was written by the Ministry of Defence to the Company on the first day of the offer, to inform them that the Ministry was contemplating carrying out a competitive tendering exercise with respect to certain orders for a British Aerospace product. Had they known that a competition was contemplated with respect to these particular orders, British Aerospace considered that they would have modified the wording of the prospectus in relation to the project concerned. In the circumstances your Ministry determined that competitive tendering would not in fact be pursued for the orders in question.

I am most grateful for the efforts made at your end which resolved the problem we faced, though at a potential cost to MOD. I know that you will regret as much as I that this problem should have arisen, since the position was made clear when Sir Brian Hayes wrote to Sir Clive Whitmore, with copies to all other Permanent Secretaries, on 5 February about the disclosure requirements imposed on the Government by the sale of shares and followed up with a further letter on 15 April. I know that you will wish to see how it was that the disclosure requirements were not met, with all the potentially damaging implications of that.



I hope one legacy from this episode will be that the most rigorous efforts are made to ensure that there is no comparable occurrence on future Government share sales. Certainly the wording of the guidance as to disclosure requirements to be given in relation to any future sales should be such that no-one can be in any doubt as to what is required of them. I think the main lesson, however, is that if any Department believes there is even a remote possibility that something may be material for disclosure, the Department handling the sale should be told; it is solely for that Department, with its professional advisers, to make the judgement whether disclosure is in fact necessary.

I am sending copies of this letter to the Prime Minister, to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Yours ever.
Norman

NORMAN TEBBIT

29 MAY 1985

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SWYDDFA GYMREIG
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

21st May 1985

In Ned

Thank you for sending me a copy of the draft White Paper on Airports Policy. In the very short time available I have not been able to study the draft in any detail but one point does strike me. I wonder whether the presentation of the argument in sections 6.24 to 6.27 could be clarified a little. The draft states that only Manchester Airport is to be designated as a gateway international airport for long haul services (together with the London area airports). It does, however, go on to say that other regional airports may be able to support some long haul services in the longer term: am I correct in assuming therefore that if, for example, Cardiff Wales Airport were successful in attracting a scheduled service to the USA or Canada, there would be no obstacle in its way to introducing such a service forthwith? The present drafting of the White Paper does not seem to me to be entirely clear on the point.

/ I am sending copies of this letter to all members of E(A) Committee.

*For
Ned*

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

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22 MAY 1985

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Secretary of State for Trade and Industry

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CSAO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

21 May 1985

The Rt Hon Nicholas Ridley
AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

D. Nicholas

DRAFT WHITE PAPER ON AIRPORTS POLICY

Thank you for copying to me your memorandum of 16 May to the Prime Minister, together with a copy of your draft White Paper.

2 For the most part I welcome this presentation of the proposals we agreed at E(A) in April. They achieve a balance between the interests involved - particularly the South East on the one hand and 'the regions' on the other - and should facilitate the expansion of business generally, as well as encourage an increase in international trade. In the latter context I am pleased at the reference to Patrick Jenkin's decision to grant planning permission for the STOLport in Docklands. Equally I endorse the one notable departure from what we agreed at E(A) - your decision not to impose an Air Traffic Movement limit at Heathrow. I accept that it would probably not have been practicable to do so, and more importantly, that such a limit may have had a detrimental effect on commercial activity, particularly in the South East.

3 My reservation concerns the proposals dealing with regulation, set out in sections 9 and 10. I should like to suggest two small drafting changes, as follows. First, to paragraph 10.11: it would be more accurate, I think, to replace the words, 'continue to contribute towards meeting airport costs', with 'are taken into account in setting traffic charges'. The original wording suggests the imposition of cross-subsidy, which consultations between our officials have established is not the point at issue in this paragraph. My understanding is that our international obligations extend to taking account of airports' commercial activities in setting traffic charges, so that both sets of costs and revenues form a 'common pot'; but we are not obliged to ensure that commercial activities make any particular level of profit. While it has been our policy to subsidise traffic operations from non-traffic revenues, I am not convinced that it is appropriate to seek to impose such an obligation on a privatised airport company.

JH2APA



The level of 'cross-subsidy' should be a matter for investigation and report by the MMC.

4 The second drafting amendment I should like to suggest refers to paragraph 9.8 which concerns the need for transparency. I consider it important that this should apply not just between airports but also between different operations within an airport. I understand that this is your intention, but perhaps the text should be clarified on this issue. I suggest that a minor insertion be made in paragraph 9.8 in the fourth sentence, so that it reads, "This structure, together with the regulatory system described in section 10, should ensure transparency, both between airports and between the various functions within an airport....."

5 I am content with the remainder of the proposals for the broad regulation framework set out in the draft White Paper. There are detailed points which our officials will need to clarify, such as the precise roles of the various regulatory authorities and their interface in dealing with airports; but I am satisfied that section 10 of the draft White Paper sets out the appropriate parameters for settling these points.

6 I am copying this letter to the Prime Minister and those to whom you copied your minute.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath. There are some additional scribbles above the signature.

NORMAN TEBBIT

ACLOSACE; future of BA 1+4

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21 MAY 1955

CE/NO

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Department of Transport
2 Marsham Street
London SW1P 3EB

NBRM
AT
24/5

21 May 1985

125 to 126

DRAFT WHITE PAPER ON AIRPORTS POLICY

Thank you for copying to me your minute of 16 May to the Prime Minister.

As I said in E(A) on 3 April, the development of Stansted itself and the consequential road, rail and urban development will inevitably result in the loss of much good quality agricultural land. This was an aspect which attracted strong criticism during the Public Inquiries, and the publication of the White Paper will no doubt stimulate further discussion on this point. I was grateful, therefore, to see that the draft White Paper stresses the Government's continued commitment to its policy for the protection of agricultural land. I am sure I can rely on you to ensure that in accordance with that policy every effort is made to keep the loss of agricultural land to the minimum commensurate with carrying out the development to the required standards.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, the Chief Whip, the Paymaster General, the Financial Secretary, the Minister for Housing and Construction, and to Sir Robert Armstrong.

*Miss Jones
Michael*

MICHAEL JOPLING

Aerospace, CAA reviews Pt 4

21 MAY 1987

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NSPM
AT
21/5FCS/85/144SECRETARY OF STATE FOR TRANSPORT

1. In your minute of 16 May to the Prime Minister, you asked for colleagues' agreement to your publishing your draft White Paper on airports policy in the week after the Whitsun Recess. I am happy to agree to this. The short time-limit for replies has meant that my officials have not been able to study the draft as fully as I would have liked but, provided the detailed points which my officials have already made to yours are incorporated in the draft, I am content with it.

2. I note that your proposals for dealing with the allocation of slots at airports (section 11.16) should help to minimise any legal or political objections by foreign airlines and their governments. Nonetheless, I suggest that legislation requiring the Civil Aviation Authority to draw up a scheme for allocating scarce airport capacity should require the CAA to consult all interested persons, and that this should be spelled out in the White Paper.

3. In paragraph 12.15 on the regulation of airports I should be happier if the phrase in the third line "abide by" could be replaced by "act consistently with". The point here is that in the past the US Government has sought to establish that the BAA itself was subject to international obligations.

4. May I conclude by expressing my admiration for the thoroughness of this White Paper, given the difficult task you and your colleagues have faced.

/5.



5. I am sending copies of this letter to all members of the Cabinet and to the Attorney General, the Chief Whip, the Paymaster General, the Financial Secretary, the Minister for Housing and Construction and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign & Commonwealth Office
21 May 1985

21 MAY 1985

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bc John Wybrew ✓

10 DOWNING STREET

From the Private Secretary

20 May 1985

DRAFT WHITE PAPER ON AIRPORTS POLICY

The Prime Minister has seen your Secretary of State's minute of 16 May, to which was attached the draft White Paper. Subject to any comments colleagues may have, she is content for the White Paper to be finalised and published. She has commented that it is important to avoid a clash with other major statements after Whitsun and she therefore welcomes the fact that the Parliamentary handling will be discussed with the business managers.

I am copying this letter to Private Secretaries to members of Cabinet, to Henry Steel (Law Officers' Department), Murdo Maclean (Chief Whip's Office), Alex Galloway (Paymaster General's Office), Vivian Life (Financial Secretary's Office, H.M. Treasury), Neil Kingham (Mr Gow's Office, Department of the Environment) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Richard Allan, Esq.,
Department of Transport.

CONFIDENTIAL



~~Not included~~
~~Report on the~~
~~future of the~~
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10 DOWNING STREET

Prime Minister ①

Mr Ridley's White Paper draws
together all the E(A) decisions.
Chapters 12 & 13 provide an
excellent summary and
index of conclusions.

Agree White Paper be published
subject to any comments from
colleagues? Yes no

The date of publication and
the accompanying statement
will need to be coordinated
with other statements of the
Social Security Review. ✓

To note that Mr Ridley will
be discussing this with the
business managers.
ML

AT

12/5



Cepo

Prime Minister

DRAFT WHITE PAPER ON AIRPORTS POLICY

As we agreed at E(A) on 3 April, I have been preparing a draft White Paper on airports policy to be issued at the same time as Ian Gow's and my decision letters on the Stansted and Heathrow Terminal 5 planning applications.

I now attach a draft of the White Paper, which I should like to publish in the week after the Whitsun Recess.

The draft White Paper follows the lines we agreed at E(A), except for the imposition of a "cosmetic" limit on air transport movements at Heathrow. After further consideration I have come to the view that it will be enough for me to have the power to impose limits on air transport movements, but I need not impose a limit at Heathrow for the time being. (I shall nonetheless, as we decided, need to impose a limit on air transport movements at Stansted in addition to the phasing condition in the planning consent.) A limit at Heathrow of 325,000 air transport movements a year would not have any effect, being at or above the airport's present capacity; and for this reason it would not provide any real relief or reassurance to people living under the Heathrow flight paths. Moreover, insofar as it had any credibility, the limit would anger those around Stansted and in the North who wish Heathrow to be used to the fullest extent possible.

All passages in the draft relating to ATM limits and to the development of Stansted are subject to drafting clearance by Counsel to minimise the risk of legal challenge to the planning decisions. This clearance is being sought in parallel.



- E(A) asked that my Department should discuss arrangements for the regulation of airports with the Department of Trade & Industry and with Treasury. This we have done; and the relevant passages in the White Paper have been agreed with them.

We have discussed the draft at official level with Departments mainly concerned, and we have incorporated their comments as far as possible. I hope therefore that it will be possible to clear the draft by correspondence, and for me to have authority to make minor drafting changes, so that we can get it to the printers by the middle of next week. If clearance has to await a meeting of E(A) or Cabinet, then I fear the timetable for publication will slip, with disastrous consequences. I am anxious to avoid this if at all possible. This means, however, that I must ask you and colleagues to let me know by noon on Tuesday 21 May if you are content for me to go ahead.

I will circulate shortly a draft of the statement which I propose to make to the House on publication. We have promised the House a further opportunity to debate the Government's airports policy. Such a debate could take place a week or two after publication, presumably on a motion to approve the White Paper. (Such a motion would be amendable.) The Parliamentary handling will need particular care, and I shall be discussing this shortly with the Lord Privy Seal and the Chief Whip. In the meantime we must continue to maintain the confidentiality not only of the contents of the White Paper but also of the likely timing of publication.



I am sending copies of this minute and of the draft White Paper to all members of the Cabinet, and to the Attorney General, the Chief Whip, the Paymaster General, the Financial Secretary, the Minister for Housing and Construction and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of the initials 'NR' followed by a flourish.

NICHOLAS RIDLEY
16 May 1985



AEROSPACE

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CONFIDENTIAL

PRIME MINISTER

17 May 1985

DRAFT WHITE PAPER ON AIRPORTS POLICY

The elements of the policy agreed at E(A) have now been brought together into a White paper which Nicholas Ridley hopes to publish immediately after the Whitsun Recess. The end product justifies your enthusiasm to take up Graham Eyre's challenge to Government to stop muddling through in a series of short-sighted expedients.

The White Paper is comprehensive, well-constructed and lucid. Some might, as it were, sense the author's walking on eggshells through the sections which deal with regional airport policy, and the balance struck between economic and environmental factors at Stansted and Heathrow. However, this reflection of the sensitive politics surrounding airports development does not detract from what emerges as a rational and coherent presentation of the Government's policy.

The central elements of that policy are:

- Recognition of the great economic benefits, direct and indirect, conferred by the UK commercial aviation business. This has been one of the fastest-growing sectors of the economy, and continues to have potential for long-term growth. It has long been the envy of Europe, if not the World. Our European competitors are snapping at our heels and would like nothing more than to

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displace the London airports system from its dominance as an international aviation hub.

- The prospects for UK commercial aviation are made the more exciting by the Government's readiness to set the pace in liberalising commercial air travel to the advantage of consumers and competitive airlines.

- Underlying demand growth, compounded by liberalisation, requires sufficient airport capacity in the right place. The right place is not just the heavily-loaded London system, but the regional airports. These generally have sufficient modern capacity, but deserve a more prominent place in the overall scheme of aviation policy as influenced by the Government.

- The need to minimise the detrimental impact of airports on the environment - and for that to be more than lip-service.

- The scope for encouraging enterprise and efficiency in the operation of major airports through the introduction of private capital.

- For all that, recognition of the continuing role of Government as regulator and referee - not in a tight repressive sense, but as a benign defender of liberal competition between airlines, the consumer and the wider

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public affected by the development and operation of airports.

Nicholas Ridley fully deserves the backing of the Government and its supporters for a sound, well-presented policy.

For easy reference, the conclusions of the White Paper, with key points flagged, are attached.

JW

JOHN WYBREW

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PART I: INTRODUCTION

SECTION 1

Foreword

1.1 From 1981 to 1983 Public Inquiries were held into proposals for the development of Stansted and Heathrow Airports. The report of the Inspector at these Inquiries, Mr Graham Eyre QC, was published last December. The Secretary of State for Transport and the Minister of Housing and Construction (on behalf of the Secretary of State for the Environment) have today issued their decision letters on the planning applications, approving that for Stansted (with conditions) but turning down that for Heathrow in accordance with the Inspector's recommendations.

1.2 The Inspector was invited to consider wider airports issues than the two planning applications before him; and he made numerous recommendations going beyond these applications. The Government is accordingly publishing this White Paper to explain its response on these wider matters and to set its decisions on the London airports in the context of an airports policy for the country as a whole. The White Paper deals in particular with the following questions:

- the future development of the London airports system;
- the role of the regional airports and policies to help their development;

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- the privatisation of the British Airports Authority;
- the reconstitution of all major airports as airport companies, to improve financial discipline and facilitate the introduction of private capital;
- the regulation of airports and rules for the distribution of traffic between them;
- the environmental issues associated with airport development, in particular the problems of aircraft noise and night flying, and the need to plan for the related urban development;
- proposals for legislation to implement these changes.

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SECTION 2

Civil Aviation and Airports Policy

The importance of civil aviation

2.1 One of the most remarkable developments in the field of transport in the post war period has been the dramatic growth in air travel. In 1950 UK airports handled only two million passengers; by 1984 the figure was over 67 million.

2.2 Growth has been in all sectors; but particularly important has been the growth of leisure travel: nearly 20% of the UK population now goes on holiday abroad by air, mostly by charter services, nearly half of which operate from regional airports. Air travel is now a thriving mass market; and demand seems certain to continue to grow. The Government's policy, set out in the White Paper "Airline Competition Policy" in October 1984 (Cmnd 9366), is to liberalise the market for scheduled services so as to promote fair competition. This will bring air travel within the reach of a still wider public.

2.3 Civil aviation is vital to our national prosperity. Aviation directly supports 60,000 jobs and contributes some £500 m a year to our balance of payments. 62% of foreign tourists to the UK travel by air and tourism is one of our most successful growth industries. Expenditure by air travellers in the UK together with civil aviation earnings amounted to over £6 billion in 1984. Our export effort relies on air transport: over £27 billion of our visible trade passed through UK airports in 1984 (three quarters of it through London).

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2.4 The UK has won a leading place in international aviation. London is one of the most important air traffic centres in the world, but its premier position is increasingly threatened by airports such as Amsterdam and Paris which have considerable scope for additional traffic and are competing strongly for long-haul traffic in particular. British airlines have the skill and experience to compete successfully, but they can only do so if the essential airport infrastructure is provided where and when it is needed.

Aviation and the environment

2.5 The development of an airport is bound to make an impact on the surrounding area. Some of the effects will be obvious and direct: the noise of the aircraft, the additional traffic to and from the airport and the activity at the airport itself. The Government is committed to mitigating as far as possible the effects of aircraft noise and other forms of disturbance. But an airport also creates employment which will give rise to a demand for additional housing and other facilities and services. The beneficial consequences of such development are likely to be widespread.

2.6 If these changes are to be accommodated and the very real potential benefits realised, good planning is essential. The planning authorities at all levels will need to ensure that full account is taken of established

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policies for the conservation of the countryside, including any green belt provision, the protection of agricultural land and the safeguarding of specially designated areas. The character of existing towns and villages and the preservation of historic buildings are questions of no less importance. There will be difficult and controversial decisions to be taken as part of the planning for airport development, as there are whenever any other kind of major development is planned. The Government believes that the normal statutory planning processes carried out by the local planning authority provide the best way of tackling problems which arise in connection with airport development.

Recent history of airports policy

2.7 With this growth in demand for air transport and the environmental problems it brings it is not surprising that the airports policies of successive Governments have given rise to almost unceasing pressures, criticism, and public controversy. After their abandonment of the Maplin project in 1974, the Labour Government undertook wide-ranging consultations which led to the 1978 White Paper on Airports Policy (Cmnd 7084). This set out a policy of controlled development for the regional airports based on their categorisation as gateway, regional, local or general aviation airports; and proposals for meeting demand in the South East up to about 1990 by the provision of a fourth terminal at Heathrow and a second terminal at Gatwick. No provision was made for the longer term, but the then

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Government initiated studies by two newly constituted groups, the Advisory Committee on Airports Policy (ACAP) and the Study Group on South East Airports (SGSEA).

2.8 Since the present Government took office in 1979, the developments envisaged at Heathrow and Gatwick have received planning permission and are now well under way: the fourth terminal at Heathrow is expected to open early in 1986 and the first phase of the second terminal at Gatwick in the second half of 1987. There has been a significant growth in the volume of air traffic and range of services at the regional airports, actively encouraged by the Government, both directly and by the policy of competition and liberalisation. The Government has authorised considerable capital investment to modernise and expand the regional airports; they now have substantial capacity in hand to meet the expected growth in demand. But it is clear that additional capacity will be needed in the London airports system by the early 1990s.

2.9 The provision of new capacity on this timescale was in fact recommended by ACAP and SGSEA in 1979. The Government announced on 17 December 1979 that, of the six sites selected by ACAP and SGSEA as suitable for the development of a third major London airport, prima facie Stansted was the obvious choice. It therefore invited the British Airports Authority to bring forward proposals for development and arranged a public inquiry to examine these, together with any alternative solutions. Uttlesford District Council, the planning authority for Stansted,

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submitted an alternative application for the construction of a fifth terminal at Heathrow. The North of England Regional Consortium proposed that the growth in demand be met by the regional airports. Other objectors to the development of Stansted proposed the revival of the Maplin project or new airports at Serverside or Yardley Chase. The Inspector's Report was published on 10 December 1984.

The Inspector's Report

2.10 The Inspector's main conclusions and recommendations were as follows:

- a. additional capacity will be required to meet demand in the South East no later than 1990 and only Stansted can provide this on time;
- b. planning permission to develop Stansted up to a capacity of 15 million passengers a year should be granted as soon as possible;
- c. development at Stansted should be planned to be capable of providing an ultimate capacity equivalent to the capacity of one runway (approximately 25 million passengers a year);
- d. the Government should make an unequivocal commitment against a second runway ever being built at Stansted; in the absence of such a commitment the application to develop Stansted should be refused;

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e. no planning permission should be granted now for any development at Heathrow, but there should be a resolute aim to commission a fifth terminal and other airport development at Heathrow by the mid 1990s to increase its capacity to 53 million passengers a year;

f. to this end, it will be necessary to remove the Perry Oaks sludge treatment works, abandon the proposal to introduce a limit of 275,000 air transport movements, and provide adequate surface access facilities;

g. the complementary capacity contributions made by expansion of Stansted and development at Heathrow will provide flexible capacity within the London airports system to meet demand from about 1990 and into the next century.

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SECTION 3

Policy Objectives

Objectives of Airports Policy

3.1 The Government has considered carefully the general conclusions reached by the Inspector of the Airports Inquiries as well as the views expressed by the aviation industry, the residents of areas where airport development has been proposed, and others concerned with the implications of growth in air traffic, and has taken into account the UK's international obligations. It has concluded that United Kingdom airports policy should be directed to the following objectives:

- to foster a strong and competitive British airline industry by providing enough airport capacity where it is needed;
- to minimise the impact of airports on the environment generally; and to ensure that land use planning and conservation policies take fully into account both the development needs arising from airports and the environmental consequences;
- to make best use of existing facilities and provide new capacity only when this is economically justified;

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- to encourage the use and development of regional airports so that they meet the maximum demand they can attract;

- to support the leading position of Heathrow and Gatwick among the world's major international airports and interlining centres;

- to encourage enterprise and efficiency in the operation of major airports by providing for the introduction of private capital;

- to ensure that all UK airports continue to maintain the highest standards of safety in accordance with internationally accepted rules and standards.

3.2 It also continues to be the Government's policy that air transport facilities should not in general be subsidised by the taxpayer or the ratepayer. Airports, whoever their owners, should normally operate as commercial undertakings.

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PART II: DEVELOPMENT OF AIRPORTS

SECTION 4

Demand and Capacity

4.1. Policy on the development of airports must be based on an assessment of future air traffic demand and available airport capacity. This section offers such an assessment.

Forecasts of passenger demand

4.2. Airport demand is normally expressed in millions of passengers per annum (mppa) passing through the terminals. On a round trip a person is counted twice, once out and once in. Between 1960 and 1984, demand at London's four airports (Heathrow, Gatwick, Stansted, Luton) rose from nearly 7 mppa to a little over 45 mppa, a compound annual rate of growth of no less than 8% over 24 years. Although growth was checked during the three years of recession to 1982, rapid recovery since then confirms the underlying buoyancy of demand. The trend for growth is still set firmly upwards, but its speed is sensitive to the economic climate here and abroad.

4.3. During the Airports Inquiries the Inspector carried out an exhaustive examination of all available traffic forecasts for the London airports, including those presented by the Government. He gave particularly careful

consideration to the potential role of regional airports. From this examination he arrived at the following "Demand Planning Values" (DPVs)⁽¹⁾ for the London airports to enable them to meet that part of the UK demand which needs to be met in the South East.

Table 1: Inspector's Demand Planning Values for
the London Airports

millions of passengers

	DPV
1984	- (Actual 45.4)
1990	61
1995	75
2000	89

(1) DPVs are strategic planning figures defined by the Inspector as levels of demand below which it would be imprudent to plan capacity. They were carefully judged so as to allow for uncertainties and possible acceleration of demand while avoiding planning targets which might lead to overprovision.

Mr Eyre's advice to Government was that planning decisions should now be taken to ensure that additional capacity is in place by 1990/91 when he expects a shortfall to occur, and to enable a total capacity of 75 mppa to be available by 1995.

4.4. In line with the advice of the Inspector, the Department of Transport has continued to monitor prospects for traffic growth. Its most recent forecasts⁽²⁾ provide the latest Government estimates of prospective passenger demand. They were prepared as high and low growth cases under two economic scenarios reflecting a buoyant and a more pessimistic outlook about the future economic climate to the end of the century. The wide range of these forecasts (which are narrowed for planning purposes) reflects the considerable uncertainties involved in making long term projections. These forecasts substantially corroborate the Inspector's view to the mid 1990s as shown in the figures below.

Table 2: Comparison of latest forecast with DPVs

	Millions of passengers		
	DTp 1984 Forecasts		Inspector's DPVs
	Narrowed range	Mid-point	
1990	57-64	60.5	61
1995	69-86	77.4	75
2000	81-111	96.0	89

(2) Air Traffic Forecasts for the United Kingdom; Department of Transport July 1984.

Longer-term uncertainties

4.5. Additional uncertainty stems from the forecasting process itself, so that the further forecasters look ahead, the less reliable projections become. In the short and medium term - say to the mid 1990s - analysis of past experience of the economic determinants of traffic growth in different parts of the market provides a good guide to the way in which variations of economic growth will affect the range of outcomes. In the longer-term, up to 2000 and beyond, factors can come into play which either did not exist or were unimportant in the past, so that they cannot be satisfactorily modelled with historical data. For instance, market saturation, congestion at London tourist sites and developments in business communications could slow down growth; liberalisation of international air services and lower air fares are likely to have the opposite effect. The construction of a Channel Fixed Link could divert up to one year's growth of London airports traffic by the later 1990s. On balance, factors such as these are likely to moderate growth in the longer term. But they will not arrest growth and might prove insignificant. These unavoidable uncertainties about the longer term would not justify a lack of action now to provide adequate capacity to meet the more clearly foreseeable medium-term prospects for continued growth in the demand for air travel. They make it essential to monitor developments in the market, including changes in the pattern of air services, so that when further decisions are needed they can be taken in the light of the latest evidence.

Could regional airports handle more of the demand currently met by the London airports?

4.6. The Airports Inquiries examined the possibility that estimates of the proportion of international traffic that needed to be met at London airports had understated the role that could be played by regional airports. These currently cater for about a quarter of international traffic at UK airports and generally operate below capacity. At the same time, about a quarter of international passengers using the London area airports have UK origins and destinations outside the South East. This excludes passengers interlining at the London airports to connect between two overseas points who make up almost 9% of total traffic at the London airports. Decisions about the need for extra capacity in the London area have to reflect not merely the buoyancy of air traffic generally but specifically the extent to which the London airports will continue to serve passengers from outside the South East. Forecasts of demand and capacity at regional airports are discussed in Section 6.

4.7. The extent to which regional airports can attract passengers who currently travel via London is limited in a number of ways. First, these passengers are widely spread between the regions. The distribution⁽³⁾ is shown below:-

Scotland	Northern	Yorks/ Humberside	North West	W.Midlands		
2.9%	1.2%	2.1%	2.7%	2.9%		
E.Midlands	E.Anglia	Wales	South West	South East	N.Ireland	
3.0%	3.0%	1.5%	5.2%	75.0%	0.5%	

(3) Source: 1984 CAA survey of London area airports; preliminary estimates.

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From this it follows that where an international service is operated from one regional point in addition to London, many passengers would still find it easier to get to a London airport.

Of the regional airports, Manchester is the most likely to attract new services. With the most generous view of Manchester's potential catchment area, about half the regional passengers currently using the London airports might find Manchester the most convenient airport if the required service were available there. However, some of these passengers will be travelling to destinations for which in the foreseeable future there will be sufficient demand to justify only one service from the UK and in the past this has tended to be from a London airport.

4.8. The Government believes that, despite these limitations, regional airports will continue to meet successfully the travel demands of growing numbers of international air passengers as recognised in the Inspector's report and in the Government's forecasts which allow for an increasing proportion of international traffic demand generated outside the South East region to use regional airports. However, even if there were a 50% greater transfer of such traffic to the regional airports, this would account for less than a year's growth of demand at the London airports by the mid-1990s; it would still be necessary to provide extra capacity to handle demand in the South East.

Consequences of restricting capacity in the South East

4.9. If capacity in the London area failed to grow in line with demand the effects would be serious and widely felt. By the

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1990s, demand at London airports will be rising by some 3 mppa a year, 80% being generated in the South East. Unless further capacity is provided a situation will be reached where each year several million additional passengers would be obliged to look for alternatives to using London airports. For the overwhelming majority of those affected, these alternatives would involve significant extra cost and inconvenience. Passengers unable to get on flights between London and the regions would face longer journey times by being obliged to travel by road or rail. UK residents unable to fly abroad from London would have to consider using regional airports or sea crossings; for individual families and tour operators, travel arrangements would be complicated and in some cases no longer feasible. Some incoming tourists, choosing between the UK and alternative destinations, would be put off by restrictions on direct flights to London, leading to a significant loss of tourist revenue. London's role as an international interlining centre would be weakened and other UK airports would not provide an alternative. Increasingly, international passengers would interline at a Continental hub such as Amsterdam and Paris, and business would be lost to UK airports and airlines. At the London airports, congestion would be unremitting.

4.10. Since the Inspector's report was published, the Government has received representations arguing that if any additional airports capacity is needed it should be provided in an area of high unemployment, rather than in the South East. Successful airports are not mobile investments: their success depends on the strength of demand for air services in their area. The Inspector

at the Airports Inquiries rejected the contention that provision of more capacity in London would prevent growth at regional airports or that faster development of regional airports would remove the need for more capacity in London. The Government agrees with his conclusions, and cannot accept a policy of inhibiting growth of traffic in the South East in the hope that it would divert traffic to the regions. Restricting the capacity of the London airports would penalise the travelling public, and seriously damage the country's prospects without bringing the suggested benefits to the regions.

Government conclusions on demand at the London airports.

4.11. The Government has concluded that

- i. The Inspector's DPVs are soundly based and should be used as a guide for the provision of capacity to the mid-1990s;
- ii. Regional airports should and must play a greater role in handling traffic but there will still be growth of demand in the South East;
- iii. Failure to provide capacity in the South East would impose significant costs on large numbers of UK air travellers and would result in suppression of demand. This would not be in the interests of either the nation or the regions and the Government cannot accept such a policy;

- iv. There is greater uncertainty about the rate of growth of demand in the longer term; the forecasts and DPVs for the later years should be treated with caution; and need to be kept under review so that appropriate decisions can be made at the right time.

Capacity of the London airports

4.12. Having accepted the Inspector's conclusions on the likely level of demand and the need to provide capacity to meet DPVs of 61 mppa in 1990 and 75 mppa in 1995, the Government has assessed how to meet these requirements given the existing capacities of approved developments at the four London airports and the constraints and opportunities for further development.

4.13. Although it is often convenient to look separately at terminal capacity and runway capacity, the throughput of an airport obviously depends on both. During early stages of development - Stansted is a current example - the number of passengers which can be handled is determined by terminal capacity because a single full length runway should be able to accommodate flights carrying up to 25 mppa. At Heathrow when the fourth terminal is completed and at Gatwick when its two terminals are fully developed, runways become the effective constraint on growth. Increases in passenger throughput then largely depend on growth in the average number of passengers per aircraft, although there may be some limited scope for spreading traffic to off-peak periods.

Terminal Capacity

4.14. The capacity of a terminal is expressed as the number of passengers which can be handled at acceptable service standards in a busy hour. Based on hourly capacity, and allowing for expected daily and seasonal peaking of demand, a terminal can be rated in mppa. Estimates of terminal capacity on this basis are shown below for the four London airports.

Table 3: Terminal Capacity of London Airports
(disregarding runway constraints)

	Millions of passengers		
	1985	1990	1995
Heathrow	30	38 ⁽¹⁾	38-42 ⁽¹⁾
Gatwick	16	21 ⁽²⁾	25 ⁽²⁾
Stansted	2	2	2
Luton	3.5	3.5	3.5
Total ⁽³⁾	51.5	64.5	68.5-72.5
(DPVs)	-	(61)	(75)

(1) Includes Terminal 4 from 1986 and some improved utilisation of all terminals by 1995.

(2) Includes the first phase of the second terminal from 1987 and the second phase after 1990.

(3) Excludes STOLPORT, which has a planned capacity of 1 mppa (see Section 7).

4.15. From a comparison of these estimates with the demand projections in Table 1, there would appear to be enough terminal capacity to match DPVs until about 1993. But as will become apparent below, airport capacity is in practice unlikely to be adequate to that date because the number of passengers on aircraft using the runways at Heathrow and Gatwick will in probability be insufficient to utilise fully the terminals at these airports now under development. In addition, account must also be taken of 'mismatch', the difficulty of allocating traffic between airports in such a way as to make full use of all available capacity.

Runway Constraints

4.16. The 29 million passengers who passed through Heathrow in 1984 were carried on some 260,000 flights at an average aircraft load of 112 passengers per flight. Gatwick handled slightly less than 14 million passengers on nearly 130,000 flights at an average aircraft load of 107. As these figures illustrate, projections of runway capacity/require estimates, first, of the annual number of flights (more strictly, the annual number of fixed wing passenger air transport movements; or PATMs) and then of average passenger loads; each is considered in turn below.

Projections of passenger air transport movements

4.17. Estimation of the capacity of an airport runway system starts with the maximum number of aircraft movements which can be safely handled in an hour, while avoiding unacceptable

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delay. Busy hour maxima are sensitive to the types of aircraft operated: particularly on final approach, larger separation distances are required to protect small aircraft from air turbulence created in the wake of much heavier types, so that runway capacity is reduced where aircraft become more variable in size. For example, CAA expect the busy hour arrival capacity at Heathrow to fall from 34 movements to 32 as the proportion of heavy aircraft (Boeing 747s, Lockheed Tri-Stars and DC10s) rises from 30% of the total to 50%.

4.18. Projections of annual runway capacity in aircraft movements are prepared from busy hour maxima, taking into consideration expectations of the likely development of demand by time of day, day of the week and season of the year. Recent CAA projections which were prepared in this way are shown in Table 4 below. Runway capacity is already fully used during peak hours at both major London airports: at Heathrow in 1984 it was fully subscribed for at least 5 hours a day for the majority of the seven-month Summer season; at Gatwick, where demand is more peaked, runway capacity was fully subscribed for 7 hours on one or more days a week during August 1984. In making their projections CAA consider they have taken a generous view of the degree of additional peak spreading which is likely to occur.

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Table 4: CAA Central Estimates of Runway Capacity

Passenger air transport movements per year

	<u>HEATHROW</u>	<u>GATWICK</u>
1985	300,000	161,000
1990	288,000	158,000
1995	280,000	150,000
2000	275,000	145,000

Source: "Runway capacity of major airports", CAA Paper 84016. Assumes that peak spreading of passenger movements will result in reductions in non-passenger movements from over 30,000 to 25,000 at Heathrow, and from over 19,000 to 15,000 at Gatwick.

4.19 CAA's estimates are broadly in line with the Inspector's assessment of runway capacities at these airports.

The impact of increasing proportions of heavy aircraft is clearly visible in the falling annual totals.

Average Passenger Loads

4.20 To produce projections of runway capacity in terms of passengers (mppa) these estimates of aircraft movements, based on expected patterns of demand, would need to be combined with projections of average aircraft loads. As aircraft loads depend mainly on aircraft size this would require assumptions on fleet changes over the longer term for airlines operating at London airports. Although the proportion of heavy aircraft is expected to increase in the CAA assessment referred to

above, any attempt at precise quantification in this area would patently be hazardous. Past trends in aircraft loads are not particularly instructive: at both Heathrow and Gatwick average loads have moved upwards progressively with growth in passenger volumes but the factors which contributed to this have been far from consistent and provide no detailed guidance for the future. Since precise projections of average loads are not feasible, a basis must be sought for taking a prudent view.

4.21 Changes in aircraft fleets depend, among other considerations, on aircraft availability, the financial resources of airlines and market developments. The factors which have a predominant influence are wider than the need of airlines to achieve maximum runway utilisation at leading international airports such as Heathrow and Gatwick. Important among these wider considerations are:-

- the increasing attention being given by manufacturers and operators to small and medium size aircraft designed to serve growing commuter markets where there is a preference for service frequency;
- the possibility of introducing twin-engined jets on the North Atlantic;
- signs of a progressive shift towards liberalisation in European markets, where competition and customer preference encourage greater service frequency - to some extent at the expense of increasing aircraft size.

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4.22 These factors, together with the Government's determination to sustain its drive for greater competition, particularly in Europe, must limit the rate at which airlines will be able to enhance runway capacity at busy international airports by introducing larger equipment to raise average aircraft loads. In these circumstances physical runway capacity at Heathrow (ie without any environmental limit) is likely to be somewhat below terminal capacity in 1990; by 1995 terminal and runway capacities may be broadly in balance; and thereafter an increasing shortage of terminal capacity is likely to emerge as aircraft loads continue to rise, but its timing and extent cannot yet be reliably foreseen. At Gatwick the runway constraint is likely to arise earlier and persist longer, reducing passenger throughput perhaps by 2 mppa below terminal capacity in 1990 and by 3 mppa or more in 1995. In Table 5 below the potential effects of physical runway constraints on passenger throughput are taken into account in a revision of the earlier Table 3.

Table 5. Effective capacity of London airports
(taking account of runway constraints)

Millions of passengers

	1985	1990	1995
Heathrow	30	37-38	38-42
Gatwick	16	19-20	21-23
Stansted	2	2	2
Luton	3.5	3.5	3.5
Total	51.5	61.5-63.5	64.5-70.5
(DPVs)		(61)	(75)

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4.23 In this section care has been taken to avoid imparting too certain or too optimistic a view on prospective growth in average aircraft loads. It is difficult to assess how the market will react under the several pressures which will come into play in the future. This uncertainty dictates a cautious approach. Nevertheless, it is clear that the effect of runway constraints at Heathrow and Gatwick is

- to bring forward the date in the early 1990s when further airport capacity will be needed in the South East; and
- to require the next major tranche of capacity to be provided at an airport with runway capacity to spare.

No reasonable amendment of the above view on average aircraft loads would alter these results.

Conclusions

4.24 The Government has therefore reached the following conclusions about demand and capacity:

- Runway capacity is now an important operational constraint at the two principal London airports. Gatwick will be operating somewhat below the 25 mppa rated capacity of its approved terminal developments for most of the 1990s. At Heathrow, even without the proposed 275,000 ATM limit, the runways will not allow full four-terminal utilisation to be reached until about the mid-1990s.

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- In the absence of additional terminal capacity beyond that already approved, a shortage will arise in the early 1990s; this can only be met at London airports with available runway capacity. If a 275,000 ATM limit is imposed at Heathrow, the need for capacity elsewhere will be greater.

- Further terminal development will be required at London airports in later years, and the capacity of the available runways will continue to influence both the timing and location of such developments

- Neither timing nor location of further development can yet be sensibly decided. Uncertainties relating to the rate of growth of demand are compounded by the uncertainties relating to changes in traffic and aircraft mix which will determine the capacity of the runways to handle that growth.

- Where and what scale of future capacity should be provided will have to be determined in good time on the best available information. The need is to adopt a cautious and flexible approach which will enable the right pattern of capacity to be provided when it is required.

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SECTION 5

The London Airports

5.1 This section and the next set out the Government's strategy for airport development in the light of the conclusions on demand and capacity in Section 4 and of the Inspector's wider recommendations. Decisions on the airports system for South East England are given here in Section 5; Section 6 deals with the development of regional airports.

Limits on airport operations

5.2 The previous sections have stated clearly the Government's conclusion that airports capacity should be provided, as far as possible, where demand exists and that there is no case for inhibiting traffic growth (paragraph 4.10). However, it may be necessary in certain circumstances to place limits on the utilisation of airports in order to meet other important objectives. Two such restrictions have been proposed on the operation of London airports: a limit on air transport movements (ATMs), and a ban on night operations. These are discussed below.

ATM Limits

5.3 The case for controls on airport use was put forward in 1979 by the planning Inspector for the inquiry into the fourth terminal at Heathrow. He recommended that control be exercised through an annual limit on air transport movements at Heathrow in order to minimise the impact of Terminal 4 on the expected improvement in the noise climate around the airport. The Inspector at the recent Airports Inquiries criticised this proposed use of ATM limits on the grounds that it would not prove an effective control on aircraft noise and that there was no justification for such an artificial constraint on runway capacity at Britain's premier airport. This is discussed in more detail in paragraphs 5.11 to 5.13.

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5.4 In the light of these criticisms, the Government has given further consideration to the need for controls on airport utilisation and the means by which they could be exercised. It has concluded that there are circumstances where restrictions on the use of airports facilities are justified. In particular when one or more of the airports of a group serving a single catchment area such as London become congested, it may be necessary to allocate the scarce capacity between airlines within a limit that takes due account of both the potential of individual airports and the impact on local residents and the surrounding area. Statutory limits on ATMs at airports would also provide reassurance to local residents about the rate and extent of traffic growth at individual airports where no other controls are available. For example, under current arrangements, the Secretary of State for Transport has powers over the BAA's investment programme, but the proposed changes in airport ownership and structure described in Section 9 will mean that such controls will no longer apply.

5.5 The Government considers that, although ATM limits are as yet an untried tool, they could provide a relatively simple means of regulating airport use. The Secretary of State for Transport therefore intends to introduce new legislation to enable him to set ATM limits at certain airports, initially at Stansted and elsewhere as necessary, subject to review in the light of developments at the airport concerned, at other airports in the relevant catchment area, and of airports policy generally. Since airport development raises issues both of acute local concern and wider national importance, the Government considers that it would be appropriate for proposals for increases in any ATM limit to be subject to Parliamentary approval. Arrangements for implementing ATM limits are discussed in Section 11.

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Night Ban

5.6 The Inspector at the Airports Inquiries considered that noise from night operations was a cause of such disturbance to residents around airports that a ban on night movements at London's (and possibly other) airports was justifiable. The Government acknowledges the particular problem of sleep disturbance at night and agrees that measures to alleviate this are essential. Measures in addition to those intended to abate daytime noise already apply: maximum noise limits on take-off at Gatwick and Heathrow at night are almost half the daytime level and there are quota restrictions on night movements at Gatwick, Heathrow and Stansted. The Government's objective continues to be to bring about progressive reductions in aircraft noise at night at these airports by completely phasing out by 1987 the quota of noisier aircraft and allowing only movements by quieter aircraft (for the purposes of night quotas the standards of quietness are more stringent than for the purposes of noise-certification.)

5.7 There have been four Noise Insulation Grants Schemes at Heathrow and three at Gatwick, under which over 41,000 applications have been approved. The latest noise insulation grant schemes - the third at Heathrow and second at Gatwick - were introduced in 1980 to provide insulation for those likely to continue to be seriously troubled by aircraft noise and have their sleep disturbed, even after most of the noisier aircraft had been phased out. The Government is committed to reviewing these schemes, in consultation with the local authorities and others concerned once the actual 1985 noise climate is known. Corrective action will be considered if it is found that the objectives of the schemes have not been achieved.

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5.8 While the Government has much sympathy with the intention behind the recommendation on night bans, it does not consider that such a major step can be taken without the fullest consideration of the effects on the aviation industry, particularly charter airlines and their passengers. Policy on night noise is firmly based on research into the relationship between aircraft noise and sleep disturbance and, in order to preserve a balance between environmental and aviation interests, this should continue to be the basis for decisions. A further review of night noise disturbance is currently underway in the light of the progressive phasing out of noisier aircraft movements. When this review is completed, the Government intends to consult all relevant interests before taking decisions on whether further measures to reduce disturbance from night noise are necessary.

HEATHROW

5.9 In 1984, passenger throughput at Heathrow reached 29 mppa. The airport is now operating at its current capacity of 30 mppa, but when the fourth terminal comes into operation early in 1986 its terminal capacity will go up to 38 mppa. The Government has stated on several occasions in the past that it did not intend to provide a fifth terminal at the airport. Its conclusion was based on a number of factors, including the noise climate and disturbance to people living around Heathrow; the difficulty of removing the Perry Oaks sludge disposal facilities to make way for the terminal; the generally restricted site at the airport; the problem of providing adequate surface access; and the ability of the runways to handle the additional traffic. All these factors were considered at the Inquiries and the Inspector strongly criticised the Government's attitude towards further development. The Government agrees that Heathrow is an important national asset and fully accepts that all

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reasonable steps should be taken to maintain its predominant position in world aviation by exploiting its potential to the fullest extent possible. The Government has reviewed the position and has reached the following conclusions.

Runway capacity

5.10 The justification for a fifth terminal at Heathrow assumes that the number of passengers will continue to increase with no substantial increase in the number of aircraft movements and that constraints on capacity can therefore be overcome by the provision of additional terminal rather than runway capacity. The problems of runway capacity are discussed in more detail in Section 4. It is clear that available runway capacity is expected to fall in the future as the proportion of larger aircraft using the airport increases, and that the scope for making more efficient use of the runways by spreading traffic to off-peak hours is limited. Furthermore, the Government's policy of encouraging competition and ensuring that access to Heathrow remains open to domestic operators increases demand for runway slots, and reduces the average number of passengers per aircraft. The Government therefore believes that runway capacity will pose problems, and will be the ultimate restraint on capacity at Heathrow.

The ATM limit

5.11 In granting permission for the development of the fourth terminal in 1979 the Government undertook to set a limit of 275,000 on ATMs at the airport when the terminal came into operation. The figure of 275,000 was higher than the 260,000 ATMs recommended by the Inspector of the 4th Terminal Public Inquiry; it was based on estimates available at the time of the effective runway capacity at Heathrow, and the Government made clear that in setting a higher limit its intention was to enable the airport's resources to be used as efficiently as possible. The purpose of the ATM limit was to provide an assurance to

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residents in the Heathrow area that aircraft noise would be kept under control by establishing a ceiling on the number of flights, which would be subject to review in the light of the introduction of quieter aircraft.

5.12 Mr Eyre was able to take account of much more up-to-date and detailed evidence on this subject than was available to the Terminal 4 Inspector. Mr Eyre did not believe that the proposed limit would make any significant contribution to the control of aircraft noise at Heathrow. In his opinion, the proposal for an ATM limit was ill-considered and if implementation were practicable it would result in a significant underutilisation of airport investment and resources. He recommended that the proposed 275,000 limit on ATMs be abandoned.

5.13 The Government is persuaded by Mr Eyre's conclusions that the restriction of movements at Heathrow to a level substantially below its physical capacity would not make a perceptible difference to the noise climate in areas around the airport. It accepts that the operative constraint on handling the demand in the London airports system will be the availability of usable runway capacity until the Stansted runway is brought into effective use by the proposed development at that airport. The annual level of ATMS at Heathrow has already reached 274,000; traffic is growing strongly and there is increasing congestion at Gatwick where the single runway is close to capacity. In the light of this it would be contrary to the national interest to constrain artificially the growth of ATMs at the country's most important airport. However, subject to enactment of the proposed legislation (paragraphs 5.4 and 5.5), powers will be available to the Secretary of State to set ATM limits at Heathrow should this be necessary for traffic management or other reasons in future. The Government fully understands the reliance that had been placed by local residents on the proposed ATM limit as a means of controlling aircraft noise and is aware that its

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decision is not in line with its earlier commitment. However, after careful consideration of the evidence and the Inspector's advice, the Government believes that other, more effective ways of limiting the disturbance from aircraft noise should be pursued. These are discussed in paragraph 5.17 and in Section 8.

Perry Oaks

5.14 The Government agrees with the Inspector that the Thames Water Authority's sewage disposal facilities at Perry Oaks have long been an incongruous neighbour to one of the world's busiest international airports. Removal of the works and release of the land to the airport, which at present is restricted to a site which is very small compared to other international airports in the world, is highly desirable. It will provide an opportunity for airport-related development to the west of the airport, between the two parallel runways, including the provision of additional terminal capacity if this can be justified at some time in the future. The Government has concluded that the possibility of releasing the Perry Oaks site to the airport should be considered regardless of whether a fifth terminal is to be provided. It is therefore inviting the Thames Water Authority and the British Airports Authority to commission a joint study of the options for releasing the site to the airport. Whether or not additional land to the west of the Perry Oaks site, up to the boundary of the M25, should also be taken into the airport - as the Inspector recommended - will be considered in the light of the outcome of the study.

Surface access

5.15 There has been much criticism of the congested road conditions around Heathrow and into London. The Government accepts that these are legitimate concerns and that improvements are necessary, whether or not a fifth terminal is developed. It has also been suggested that the underground service to Heathrow needs to be supplemented by

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a high quality rail service, on the lines of the successful Victoria-Gatwick service. Although such a link is unlikely to be financially viable on present assumptions of the volume of traffic generated by the airport, account needs to be taken of the benefits which might be derived from reducing the pressure on road links to London where, as the Inspector acknowledged, the scope for improvements is limited. The Government has therefore decided to commission urgently a study of the options for improving surface access to Heathrow: by easing the capacity problems of the A4/M4 corridor; the possibility of a BR rail link to Heathrow; and the scope for improvements of the Piccadilly line underground service. At the same time local authorities and others concerned will be consulted about improvements to local roads and traffic flows in the vicinity of the airport.

Commuter runway

5.16 The use of the cross runway by small commuter aircraft has been proposed as a means of releasing capacity on the main runways at Heathrow. This was considered in a CAA study (CAA 84016, Annex B) which concluded that the overall loss of capacity arising from such operations would be greater than if they were accommodated on the main runways. In the light of this, the Government has decided not to pursue this option further.

Noise

5.17 The Government accepts that Heathrow residents experience more severe noise problems than residents near any other airport in the UK. The general measures in operation to alleviate noise problems are discussed in Section 8. The Government is committed to doing everything possible to ensure that the noise climate improves, and will continue to support the necessary operational measures, particularly the continued use of quiet take-off and landing procedures and runway alternation.

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The future capacity of Heathrow

5.18 The arguments in favour of a fifth terminal are that it would enable the fullest possible use to be made of Heathrow's runways and give resident airlines assured room for expansion. The Government agrees with the Inspector that there is a strong case for allowing traffic at Heathrow to develop to its full potential but it believes that a fifth terminal cannot be regarded as a real option until the feasibility of releasing the Perry Oaks site has been established. Moreover, bearing in mind the Government's wish to encourage competition there is some doubt about the rate of growth of average aircraft loads and therefore when sufficient runway capacity will be available to a fifth terminal. The Government is therefore not prepared to make any commitments at this stage on the question of a fifth terminal at Heathrow but will keep the matter under review. Any future proposals for a fifth terminal and for relocation of the Perry Oaks works on a new site would need separate planning permission.

5.19 The Government is however convinced that demand will continue to grow at Heathrow. It was suggested at the Inquiries that about 42 mppa could eventually be accommodated at the airport within the four terminals already provided, bearing in mind that the development of Stansted and of appropriate traffic distribution policies will help to cope with mis-match between airports within the London system. It will invite the BAA to consider whether any improvements are possible which could help to accommodate traffic in excess of 38 mppa at Heathrow at standards acceptable to the travelling public and the local environment.

GATWICK

5.20 Gatwick is Britain's second busiest international airport and the fourth busiest international airport in the world. Traffic there has been growing at a higher rate

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than at Heathrow. In 1984 the airport handled some 14 million passengers. The second terminal, the first phase of which is due to open in 1987, will eventually raise the airport's capacity to 25 mppa. But because of runway constraints, such a throughput is unlikely to be reached until the late 1990s. This will depend on the traffic mix at the airport, how soon the growth of newly established scheduled services will justify the introduction of larger aircraft, and other factors. The runway is already operating at maximum capacity at peak times and the position is not likely to improve until additional capacity is available at Stansted.

5.21 The development of a second runway at Gatwick has been suggested many times as the next step for airports development in the South East. However, the Government believes that the provision of a second runway would have unacceptable environmental implications. It could only be built to the north of the present runway, which would require a major expansion of the airport's boundaries and bring the runway within a mile of the built-up area around Horley. The village of Charlwood would be destroyed and other nearby villages would be seriously affected. Furthermore, it is by no means certain that the capacity of a two-runway airport could be fully utilised because of air traffic control constraints arising from the proximity of Heathrow and defence establishments. The Government therefore re-affirms the policy that Gatwick should develop to its full potential as a single runway airport and that a second runway should not be constructed. This has, in fact, already been agreed between the BAA and West Sussex County Council. However, an emergency runway is being provided with permission from the local planning authority by widening the main taxiway. This will enable the airport to continue to operate to some extent when the main runway is out of action, but it cannot be operated at the same time as the main runway.

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Commuter runway

5.22 There have been suggestions that a short take-off and landing (STOL) commuter runway be built at Gatwick to release capacity on the main runway. The CAA have advised, in DR communication 8406, that there would be no capacity or operational advantage in building such a runway within the airport's boundaries because of the interaction with the main runway. Constructing a commuter runway outside the boundaries would bring the same environmental problems as described above. This proposal will not therefore be pursued further.

LUTON

5.23 Luton airport has a terminal capacity of about 3.5 mppa and a throughput of under 2mppa, almost all of which are passengers on short-haul and medium-haul charter services. The Bedfordshire Structure Plan provides for expansion up to about 5mppa (the ultimate capacity of the existing single terminal). This is accepted by the neighbouring Hertfordshire County Council, some of whose residents are affected by aircraft noise from the airport. No proposal was made at the recent Airports Inquiries for the development of Luton beyond its present level. Earlier studies suggested that there were difficult problems to overcome in relation to surface access and the incidence of aircraft noise on neighbouring built up areas.

5.24 It has been suggested that Luton airport might play a greater role in handling London area demand and thus reduce the pressure on other airports. The Government is aware of the problems identified at the Inquiries in relation to air traffic control of Stansted and Luton. It would welcome growth of traffic at Luton which would enable the airport authority to make the best possible use of its facilities, although it recognises that it is unlikely to be possible to exceed the hourly runway capacity of 15 movements identified in the Inspector's Report. This would enable a throughput of about 5 mppa or possibly more in the

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longer term depending on average aircraft loads. As was explained to the Inquiry, a higher level of activity at Luton would require major changes to the air traffic control procedures and an extension of controlled airspace which would cause severe problems for important defence and other facilities in the area and might make their continued operation impossible.

STANSTED

5.25 Stansted airport, though possessing a full-length runway, currently has a terminal capacity of only 2 mppa and a passenger throughput of approximately 500,000 passengers a year.

5.26 In the light of Government's objectives of meeting demand and of making the most effective use of existing resources, outline planning permission has been granted for the BAA to develop Stansted airport up to an eventual capacity of about 15 mppa. This should enable the shortfall of capacity in the early 1990s identified in Section 4 to be met. However, the Government considers that because forecasts of future demand are inherently uncertain and given that major and rapid expansion at Stansted could impose pressures on an essentially rural area, it is desirable to guard against the environmental implications of any overprovision of airports capacity and associated urban development. The first phase of development will be limited to about 7- 8 mppa, and the timing and capacity of further phases up to 15 mppa will necessarily depend on the growth of demand and the contribution made to handling the demand by the other airports in the London system. In evidence given at the Inquiries, the BAA estimated that the cost of the development will be some £400 m at mid 1981 prices. The cost of the initial phase is likely to be considerably less. The Government will invite the BAA to submit for approval investment proposals for a phased development at Stansted: it will expect the BAA to show that the investment will earn an acceptable rate of return.

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Proposal for an ATM limit

5.27 The Government is deeply conscious of the genuine and understandable concern expressed by local residents about the scale and extent of development at Stansted and the environmental effects. This concern should be mitigated to some extent by the proposed phasing of the development described above. However, since the Government wishes to ensure an orderly distribution of traffic within the London airports system, and to strike an appropriate balance between aviation and local interests, it intends to set an ATM limit at Stansted sufficient only to enable effective utilisation of the first phase of development - subject to Parliament enacting the relevant legislation (paras 5.3-5.5 above). Under the proposed legislation, Parliamentary approval by means of affirmative resolution will be needed for any increases in the ATM limit. The Government considers that this should provide a satisfactory means of evaluating the case for allowing expansion of traffic at Stansted in the light of developments in the London system as a whole and give an assurance to local residents that use of the airport will be strictly limited to essential needs at each stage.

Surface Access

5.28 Stansted already enjoys high quality road links, via the M11 and M25, into London and the rest of the South East, but in conjunction with the airport development, the immediate access will be further improved through the provision of appropriate interchange facilities and access points. Some improvements to local roads may also be necessary and the Government expects the local highway authority to consider these further in the normal way, and in good time. These are expected to cost some £2m.

5.29 The Inspector of the Airports Inquiries considered that a high quality rail link should be provided and should come into operation on the same timescale as the airport development. The Government considers that more work is needed to establish what rail link will be financially

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justified in the light of traffic forecasts and the phasing proposals discussed above. The Government is, therefore, inviting the British Railways Board to undertake such a study in consultation with the BAA.

Urban Development

5.30 The proposal for a phased development should help to mitigate the environmental consequences of an expanded airport by enabling the local planning authority to cater for the associated development of housing and other facilities as the need arises. The circumstances of Stansted are quite different from those of the other London airports. The areas around Heathrow have accommodated extensive growth as the airport has evolved. Gatwick Airport, by contrast, has expanded in step with the planned growth of the Crawley/Gatwick area in the 1970s. Compared with Heathrow and Gatwick, Stansted has a relatively small population close to the airport. The nearest major centres of population are at Harlow and Bishops Stortford, but the existing character of north west Essex and north east Herts means that any urban development associated with the airport must be provided for with great care.

5.31 The Inspector's report on the Stansted proposals suggests the locations at which housing development should be concentrated. The Inspector tested a figure of 17000 additional houses, although he considered the actual requirement associated with an airport capacity of 15 mppa would be substantially less, and concluded that it could be accommodated at Harlow, Bishops Stortford, and Stansted/Elsenham/Birchanger. Some estimates of cost were presented to the Inquiries, but neither the Inspector nor the Government considers these reliable for planning purposes.

5.32 The Government attaches great importance to existing policies for protecting agricultural land, green belts and the character of the surrounding towns and villages and to the avoidance of pressures of demand for sporadic, unplanned development. The Secretary of State for the

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Environment expects that Hertfordshire and Essex County Councils will bring forward appropriate proposals for alterations to their structure plans in the light of these policies.

Noise

5.33 Disturbance from aircraft noise was one of the most contentious issues raised at the Inquiries. Although the Inspector concluded that aircraft noise would not be such a problem as to warrant rejection of the planning application, he considered that all possible measures should be taken to mitigate its effects. The Government agrees and intends to supplement, as necessary, the noise abatement measures already in force, such as noise preferential routes, quiet take-off and landing procedures and quotas on night operations, as the airport develops. In particular, the Government intends to introduce a noise insulation grant scheme, as recommended by the Inspector, on the lines of those which have been implemented at Gatwick and Heathrow, taking full account of the outcome of the review of the latest schemes.

Future development

5.34 The Inspector recommended that Stansted should eventually be able to develop up to the capacity of its existing runway to accommodate a passenger throughput of about 25 mppa. The Government believes it possible that, in time, the full use of Stansted's runway capacity may be needed in line with increases in demand. The provision of additional capacity will be subject to further planning permission for construction of a second terminal. In addition, under the new legislation proposed, the consent of Parliament will need to be obtained for any increase in the ATM limit.

5.35 The Inspector also recommended as a condition for the grant of planning permission that the Government should make an unequivocal declaration of intent that a second main runway will not be constructed. On current demand

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forecasts, it is at best uncertain, and probably unlikely, that such a runway would be justified in the foreseeable future, while it is clear that it would give rise to severe environmental pressure. The Government therefore unreservedly accepts the Inspector's recommendation in this respect.

5.36 In the light of these decisions, the Government accepts that the area proposed for safeguarding to accommodate a possible second runway is unnecessarily large and will invite the BAA to identify a smaller area which might be required for construction of a second terminal if this proved to be justified at some time in the future. Since much of the land around Stansted acquired by the BAA will then no longer fall within the boundaries of any future airport development, the Secretary of State for Transport will expect the BAA to take early steps for its disposal.

CONCLUSIONS ON THE LONDON AIRPORTS

5.37 The developments outlined above should provide sufficient capacity to meet air transport demand in the South East into the mid-1990s, and the necessary flexibility to enable decisions to be taken at the appropriate time for any development needed thereafter.

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SECTION 6

Regional Airports

The Importance of Regional Airports

6.1 The Government has maintained a consistent policy of encouraging the maximum use of the airports outside the London system to meet demand arising in the regions. Such developments benefit passengers to and from the regions by providing them with air links at local airports and avoiding time-consuming journeys to the London airports. Thriving regional airports also provide direct and indirect employment in the regions and benefit local industry by providing convenient air services for businessmen and local air freight services.

6.2 The available capacity at the regional airports is in general much less fully used than at the London airports as a whole and the same applies to the road networks which provide access to them. Thus, increasing use of regional airports ensures better use of the existing infrastructure. These airports also have a role to play in relieving pressure on capacity at the airports in the South East.

Policies of the Government and the Civil Aviation Authority

6.3 This encouragement for regional airports has not been confined to words, but has been accompanied by action to foster development and promote new services.

(i) Capital expenditure allocations

6.4 Since 1979 the Government has approved special annual allocations for capital expenditure at local authority airports on schemes designated as "Projects of National or Regional Importance" (PONORI). The approvals for the period 1979/80 to 1985/86 total some £200 million. Major developments have included construction of a new terminal complex at Birmingham Airport; extension of the runway, provision of new aircraft stands and improvements to the terminal at Manchester Airport; extension of the runway at Leeds/Bradford Airport; and extension of the terminal at Newcastle Airport.

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(ii) CAA licensing policies

6.5 The Civil Aviation Authority (CAA) is responsible for the licensing of new services by British airlines. Provided an airline can demonstrate an adequate case under the Civil Aviation Act 1982 and in terms of the Authority's Statement of Policies on air transport licensing, it can reasonably expect to be licensed to operate whatever services it wishes from the regions. Indeed, the Statement makes clear that "within its statutory duties, the Authority will have regard to the regional development of the United Kingdom". The existence of a service from a London airport to an overseas point would not normally be seen as a bar to licensing a British airline to serve that same point from the regions; on the contrary, the two services would usually be seen as a form of indirect competition which would benefit the user.

(iii) International traffic rights

6.6 The Government takes the lead in negotiating air traffic rights for UK airlines to fly to international destinations and for foreign airlines to fly to UK airports. The Government is anxious to encourage the liberalisation of air services wherever foreign competition is fair and British interests are not prejudiced. Notable progress has already been made in Europe, through liberal agreements with other Government and support for a liberal European Community transport policy, but international aviation on long-haul routes remains a heavily regulated industry. It is therefore important that in negotiating air traffic rights with other countries, increased access by foreign airlines to UK airports should be balanced by parallel improvements in access, of equivalent value, for UK airlines to that country. This is in the interests not only of UK airlines, but also of the UK economy as a whole.

6.7 As part of its efforts to secure these more liberal arrangements for air services, the Government has encouraged the development of regional services to and from foreign countries. Existing bilateral agreements presently

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include rights to operate services to and from regional points which it is for airlines to decide whether to take up. International services are possible on some 1,5000 routes from regional airports, although airlines have so far chosen to operate only about 100 of them. More specifically:

(a) The Government strongly supported the European Community's inter-regional services Directive which became effective in October 1984, and which allows freedom of access between regional airports in the EC for aircraft of 70 seats or less.

(b) The Government has encouraged new long haul services to regional airports, including the Qantas service from Manchester to Australia and the new El Al service from Manchester to Tel Aviv.

(c) Bilateral negotiations on international services have led to the introduction of liberal air transport arrangements with the Netherlands; the Federal Republic of Germany and Luxembourg. As a result some new regional services have already started and there is opportunity for others. Further liberal agreements are being sought.

(iv) Support from British Airways for new regional services

6.8 The routes flown from regional airports are largely a matter for the commercial decisions of airlines, where they consider that demand is sufficient. However, the Government recognised in the recent White Paper on Airline Competition Policy that there are costs in developing and launching new routes. At the Government's instigation British Airways has agreed to provide support to independent UK airlines (other than British Caldedonian) to help launch a maximum of 15 new services to Europe from the

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regional airports where British Airways currently operates: Manchester, Birmingham, Newcastle, Glasgow, Edinburgh and Aberdeen. Up to £450,000 per route will be available, to meet some of the development costs of the routes, and British Airways will also help with supporting services. The Government has published selection criteria designed to encourage services which benefit both users and the airlines concerned and which, although viable in the longer term, might not be started without support. Applications for assistance have been received for 82 services and the Secretary of State expects to recommend 15 services to BA, based on advice from the CAA, by the end of the year.

(v) Domestic routes

6.9 On domestic routes there have been a number of changes which should benefit the regional airports. The introduction of British Midland Airways onto the trunk routes from Heathrow to Glasgow, Edinburgh and Belfast has provided a competitive spur to British Airways leading to an overall increase in passengers and increased frequencies. Growth in traffic in 1984 on the trunk routes between London and Scotland was some 11% higher than on other major domestic routes and there are signs of significant growth on the Belfast route. Traffic growth may also be expected on the Heathrow to Manchester route on which Dan-Air Services was licensed last year to compete with BA. Other regional airports have benefitted from new services from Heathrow eg Dundee and Carlisle (Air Ecosse). Access to Heathrow for domestic air services will be further aided by the decision to raise the ATM limit at Heathrow.

6.10 The CAA has also proposed, as an experiment for two years, to liberalise entry on to many domestic routes, apart from those to Heathrow and Gatwick and lifeline routes to island communities etc, and effectively to deregulate domestic fares. The Authority is holding public hearings on these proposals.

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Types of Traffic at Regional Airports

6.11 Nearly 45% of traffic at regional airports is international charter traffic. Domestic traffic accounts for about 46%. Less than 10% of passengers from regional airports are carried on international scheduled services and 70% of these travel via the four largest regional airports, Manchester, Glasgow, Aberdeen and Birmingham. In terms of traffic at all UK airports, regional airports handle about a third of all passengers. They cater for over 60% of all domestic traffic, nearly half the passengers on international charter services, but less than 7% of passengers on international scheduled flights. This is, however, forecast to increase.

Table 6: Types of Traffic at Regional Airports - 1984

	International			Domestic	Total
	Scheduled	Charter	Total		
Passengers (millions)	2.1	9.9	12.0	10.1	22.1
% Split	(9.5)	(44.8)	(54.2)	(45.7)	100.0)

Traffic Growth at Regional Airports

6.12 Traffic at regional airports has grown in recent years as shown in the table:-

Table 7: Terminal Passengers at Regional Airports

	Millions of passengers					
	1979	1980	1981	1982	1983	1984
INTERNATIONAL	7.6	8.4	9.2	9.9	10.5	12.0
DOMESTIC	9.8	9.9	9.1	9.3	9.3	10.1
TOTAL	17.4	18.3	18.3	19.2	19.8	22.1

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Growth has been particularly strong at the larger airports, eg the number of terminal passengers at Manchester has increased from 3.5 million in 1979 to 6.0 million in 1984. But some of the smaller airports have also performed well, eg Bristol, with growth of over 25% in the number of terminal passengers in each of the last two years.

6.13 There has been a strong rise in the share of UK international traffic handled at regional airports from about 18% in 1978 to over 23% in 1984. This reflects in particular the growth in leisure travel from the UK, mainly on charter flights.

Routes served from Regional Airports

6.14 International scheduled services from regional airports are almost entirely to Europe and the Near East but Manchester and Prestwick handle a limited number of long-haul services. Manchester supports the widest range of destinations, serving 33 international points this summer. Glasgow and Birmingham Airports also support quite a wide range of European scheduled services: 15 destinations from Birmingham this summer and 10 from Glasgow. The number of international scheduled frequencies from regional airports has risen by over one third between April 1983 and April 1985.

6.15 British Airways has recently started services from Manchester to New York, Munich, Malta, Larnaca and Geneva. Later this year they plan to mount services to Cork, Hong Kong, Bahrain and Bangkok; and services from Manchester to Athens, Madrid, Lisbon and Oporto are planned for 1986 subject to licensing and, in some cases, to securing the agreement of the other Governments concerned. Other new BA services include Birmingham to Hanover and Cork, Shetland/Orkney to Bergen, Jersey to Dusseldorf, and Belfast via Birmingham to Amsterdam.

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6.16 But British Airways is by no means monopolising new services from the regions. Since publication of the Government's White Paper on Airline Competition Policy in October 1984 there has been a very substantial upsurge in licence applications from the independent UK airlines for new services to Europe. This suggests that there are good opportunities for the independent airlines to continue to grow and compete with British Airways, improving the services available to the passenger from the regions. New services announced or introduced by the independent airlines include Manchester to Palma and Stavanger; Leeds/Bradford to Frankfurt; Jersey and Alderney to Cherbourg; and Exeter to Brussels.

6.17 Between October 1984 and the end of April 1985, the CAA received applications for scheduled service licences to Europe for 135 routes from the regions, 124 from independent airlines: 21 services, 15 by independents, had been licensed by the end of April.

6.18 Much of the growth in traffic at regional airports over the past decade has been due to the success of the independent UK airlines in seeking out new market opportunities. In association with the highly competitive UK travel industry, who have successfully marketed low cost holidays abroad, these airlines have been mainly responsible for making available air travel abroad to increasing proportions of the UK population and for extending the range of international destinations offered from regional airports. As these airlines turn towards operating scheduled services, their past record and considerable expertise in operating services from regional airports will stand them in good stead.

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Demand Forecasts for the Regional Airports

6.19 The mid points of the Department of Transport's 1984 forecast of traffic at regional airports are shown below, together with Demand Planning Values adopted by the Inspector to the Stansted/T5 Airport Inquiries.

Table 8: Forecast terminal passengers at regional airports

	Millions of passengers			
	1984	1990	1995	2000
International	12.0	17.4	21.3	25.2
Domestic	10.1	12.5	15.0	18.1
Total	22.1	29.9	36.3	43.3
Inspector's DPVs		29	36	43

6.20 Average traffic growth in excess of 4% per year is expected at regional airports to the end of the century. International traffic growth is expected to exceed growth in domestic traffic and more growth is expected in the early years. This mainly reflects the prospects for continued growth anticipated for UK leisure traffic at regional airports. Beyond 1990, growth in other passenger markets becomes more important and regional airports are expected to attract a larger proportion of UK scheduled air traffic.

6.21 One important area for future growth in traffic at regional airports is likely to be foreign tourists visiting the English regions, Scotland, Wales and Northern Ireland. The Government believes that tourism is one of the country's major growth industries and it is an objective of the British Tourist Authority in its marketing effort to give emphasis to Scotland, Wales and the regions of England

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practical effect except for Gateway International Airports (see paragraphs 6.27-6.37 below). The Government believes that airports should be free to compete as far as possible and to provide the necessary facilities to enable airlines to meet demand when and where it arises. Concentration of traffic will occur naturally as a result of the free operation of the market without relying on formal categorisations of airport type.

6.26 The market mechanism does not, however, automatically apply to the controls undertaken for Customs, Immigration and other purposes at airports. Difficulties in providing staff for these functions can be an obstacle to growth at very small airports, but such services can only be provided to meet demand in a way that is compatible with the economic and efficient use of manpower and other resources. Thirty five airports are therefore designated by the Department of Transport for the provision of wide-ranging customs clearance facilities. Proposals for the provision of new and enhanced Customs facilities or the withdrawal of existing facilities will in future be considered by an inter-departmental body, the Customs Facilities Consultative Group; the industry will be fully consulted about any significant changes.

Gateway International Airports

6.27 Forecast demand for inter-continental air services is unlikely to support a network of long-haul scheduled services from more than one regional airport in England and Wales for some time. Thus, while the other categories of airport will be discontinued, the Government has decided to maintain the policy whereby Manchester Airport is designated as a gateway international airport for long-haul services, together with the London area airports.

In the longer term, however, other regional airports may be able to support some long-haul services, particularly if traffic growth is towards the higher end of the forecast range. The role of the Scottish lowland airports is discussed in paragraphs 6.34-6.37 below.

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Manchester International Airport

6.28 It is clear from the experience of airport development throughout the world that one essential ingredient is a regional or national airline committed to the development of an integrated hub. The new international services from Manchester operated or proposed by British Airways represent important steps towards developing Manchester Airport as a regional hub airport. An important element of this hub will be domestic feeder services operated by smaller UK independent airlines and additional European services operated by the independent airlines, increasing the opportunities for interlining at Manchester. Complementary services by foreign airlines also have a role to play in developing the Manchester hub.

6.29 In order to harness more effectively the combined resources of the Airport Authority, the Government and the principal British airlines with a stake in the future development of a Manchester hub, Department of Transport officials have held joint discussions with the management of Manchester Airport to explore possible ways of increasing its range of international services, and a five year plan is being drawn up. These discussions will be continued on a regular basis with airline representation. The development of a positive strategy for the development of the Manchester hub will lead to an increased emphasis on the attractions of Manchester in bilateral negotiations with Governments in Europe and in the rest of the world.

6.30 This has already been demonstrated in the negotiations with the Government of Singapore at the beginning of May which led to agreement that SIA should be allowed to operate two services a week to and from Singapore from April 1986, with a third service to follow in due course. The detailed arrangements should benefit the consumer by maximising the number of points served by BA, QANTAS and SIA on their respective Manchester services to the Far East, whilst encouraging healthy competition between them in serving these overlapping markets.

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6.31 Close attention will also be paid to the balanced development of the Manchester hub in negotiations which will take place over the next few months about the access of United States airlines to Manchester. At present the Bermuda 2 Air Services Agreement with the United States preserves Manchester as a UK/US gateway for scheduled services for the use of British airlines only. The Government is prepared to negotiate with the United States Government the basis on which US airlines may also operate direct scheduled services to Manchester.

6.32 The Government would expect to approve capital expenditure on a second terminal at Manchester when this is justified by demand and return on capital.

6.33 Manchester Airport has the benefit of direct access to the national motorway network via a spur road and grade separated junction to the M56; the M56 links to the M6 and M63 which provide connections from Manchester to the North, South and East of the country. The railway system in the Manchester area will be improved by the construction of the "Windsor Link" between the systems to the north and south of the city. The Government approved this scheme in April 1985. The Government will invite the local authorities, the airport authority and British Rail to analyse the case for providing a direct rail link to Manchester International Airport. The Government will consider the projects on the same terms as the rail link to Stansted and will be glad to approve the investment if it can be justified.

Scottish Lowland Airports

6.34 The current Government policy for the Scottish lowland airports is that the three airports should have complementary roles: Prestwick serves the whole of Scotland as the gateway international airport for long-haul (primarily transatlantic) services; Glasgow and

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Edinburgh cater for domestic and short-haul European services for the West and East of Scotland respectively. In the summer of 1984, the Secretary of State for Transport, in consultation with the Secretary of State for Scotland, established an inter-departmental Working Group to review this policy. The Working Group's report was published on 4 April 1985. The report identified economic benefits to airlines and their customers and financial effects on the British Airports Authority which could result from a change of policy to allow long-haul air services to use Glasgow and Edinburgh airports. It also identified social and environmental disadvantages which such a change could entail, and did not make any recommendation for a change of policy.

6.35 The Government announced on 4 April that it had decided to maintain the present policy under which Prestwick is designated as the gateway for long-haul services to and from Scotland until at least 1989. However, the Government is very concerned about the decline in traffic at Prestwick in recent years and the level of operating losses which has been experienced there.

Every effort must therefore be made by those who want to preserve Prestwick to improve its economic performance and the Government looks for a steady improvement in Prestwick's financial results.

6.36 Prestwick has excellent airport facilities and a great deal of spare capacity; its attractions should be increased by its designation as a freeport, which is now becoming operational. In the light of the Working Group's report, the Government has invited the BAA and Strathclyde PTE, in consultation with British Rail, to examine the case for developing a station at the airport, on the existing Glasgow to Ayr line.

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6.37 Prestwick is named as a gateway international airport for both US and UK operators under the Bermuda 2 Air Services Agreement with the United States and transatlantic flights stopping at Prestwick are now allowed to fly to and from other Scottish Airports. The Government's policies for all regional airports, set out in paragraph 6.28 below, should be of benefit to the Scottish lowland airports, as to other airports in Scotland and elsewhere in the UK.

Other Regional Airports

6.38 Other regional airports also have an important role to play in meeting demand for air services from passengers with origins or destinations in the regions. As demand increases, these airports can be expected to develop an increasing range of services, attracting passengers who would previously have travelled via the London airports, or even via Manchester. The Government is concerned to encourage this growth and development:

(i) At all regional airports owned by local authorities, the Government will be ready to approve capital expenditure for expansion and improvement of facilities where this can be financially justified. The Government is giving sympathetic consideration to freeing from control investment financed by profits from airport operations.

(ii) The initiatives to liberalise route access on a bilateral and a multilateral basis and to increase competition on both international and domestic routes, set out in paragraphs 6.7 to 6.11, should benefit regional airports.

(iii) The Government will aim, both in bilateral negotiations and in the review of the European Community inter-regional air services directive, to be carried out in 1986, to liberalise further route

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access arrangements on a reciprocal basis and so to increase the scope for services from regional airports.

(iv) The Government will be ready to discuss with the airlines and airport authorities concerned their plans for the future development of individual airports including the case for improvements to surface access and the opportunities for developing new routes from regional airports, to see whether the Government can help.

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Airports for Business Aviation; Stolport; Heliports

7.1 This section deals with the development of airport facilities for certain specialised kinds of traffic. The availability of facilities for such traffic does not in fact present serious problems other than in the South East of England: hence the focus of attention on the South East in this section.

Facilities for Business Aviation

7.2. Business aviation covers a wide range of civil aviation operations for business purposes, including air taxis and the use of corporate or private aircraft. Such operations complement scheduled airline services, offering greater choice of destinations and departure times and savings on total journey times.

7.3 At present Heathrow accommodates about 20,000 business movements per year, and Gatwick about 11,500 movements. The advantages for business aviation in using these major airports include the interlining opportunities and ease of access to controlled airspace. However, a business aircraft movement takes up the same amount of runway capacity as a commercial airliner. The Government therefore considers that the current policy should be maintained, whereby priority is given to airliners over business aircraft so as to make the most efficient and economic use of the facilities at these airports. Business aircraft already experience difficulty in gaining access to Heathrow and Gatwick at peak periods, and these difficulties are likely to increase as the available capacity is increasingly used by commercial airlines. Paragraphs 5.16 - 5.22 make clear that there is no scope for improving access for business aircraft by developing commuter runways at these airports.

7.4 The Government recommends that the arrangements for business aviation at these airports should continue to be operated flexibly so that business aviation can be accommodated at off-peak times, and even at peak times by using gaps which arise

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at short notice between scheduled airline movements. But the lack of certainty inherent in these arrangements is not very satisfactory for business aviation operators and users, and it is clear that alternative airport capacity will be needed for some of the operations which currently take place at Heathrow and Gatwick, and also to accommodate the expected growth in demand for business aviation in the South East.

7.5 The Business Aviation Working Group, chaired by the Department of Transport and including representatives of the London and South East Regional Planning Conference, business aviation and environmental interests, was established to examine the expected levels of demand for business aviation in the South East of England and the availability of facilities to meet that need. It published a consultation document in March 1983 and a final report in July 1984. The material in this report is commended to business aviation interests and local planning authorities who have the responsibility for proposing or deciding on relevant development proposals, and its recommendations form the basis of this part of the White Paper.

7.6 The Working Group estimated that demand for suitable aerodrome facilities for business aviation aircraft would increase, with the strongest growth arising from larger business aircraft which would wish to use controlled airspace. They considered that the existing facilities at Stansted and Luton, Biggin Hill, Hatfield, Leavesden, Northolt and Southend would have important roles to play in meeting the expected increase in demand in the London area. Aerodromes such as Blackbushe, Elstree and Fairoaks would continue to handle significant numbers of movements by smaller business aircraft. Further from London, Bournemouth, Shoreham and Southampton would continue to play important roles in meeting the growth in demand in their local catchment areas.

7.7 The Working Group recommended the development of Farnborough
/ for business aviation. The Ministry of Defence have recently confirmed that they will be inviting tenders for the development of a business aviation enclave with associated light industry at

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Farnborough. This should be able to handle up to 25,000 business aviation movements per year, including movements requiring access to controlled airspace, and will provide a substantial addition to capacity.

7.8 The need for further additional facilities will depend to a considerable extent on developments at Biggin Hill. The airspace above London is currently being reorganised by the Civil Aviation Authority's National Air Traffic Services (NATS) and this may increase its ability to accommodate movements from Biggin Hill. NATS expect to be able to give a preliminary assessment by the end of 1985. The operators are also examining the possibility of installing a radar unit at Biggin Hill to provide an air traffic service to traffic which cannot be accommodated in London's airspace.

Since publication of the Working Group's report, the MOD and the other Departments concerned have taken a number of steps to encourage greater civil use of RAF Northolt. Whereas civil operators were previously required to give 24 hours notice of their wish to use the station, they now simply require prior permission. In addition, HM Customs and Excise have extended the Business Users Concession to enable EC citizens to be carried as incidental or additional passengers on Business User flights. A number of companies have expressed an interest in greater civil participation in operations at the station, and the Ministry of Defence has invited them to produce proposals at the earliest opportunity. In the meantime, the Ministry has identified a limited range of facilities at RAF Northolt which might be used for a trial period as the basis for a greater civil aviation presence at the station, and will seek to establish how these might be used once the civil operators' proposals are available.

7.10 The Working Group were handicapped by a lack of reliable data and made a number of recommendations to improve this situation. Some of these recommendations have already been implemented. For instance, the Civil Aviation Authority

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has already begun to collect statistics of business aviation use at aerodromes that were not previously covered in their surveys. The remaining recommendations will now be implemented including the commissioning of further research into noise disturbance from business aviation.

7.11 All parties represented on the Working Group agreed that it provided a useful forum for discussing the problems faced by business aviation and by environmental interests.

It will therefore be reconvened from time to time to review developments, and in particular the results of new research.

Stolport (Short take off and landing airport)

7.12 The Government considers that the development of a Stolport in the Royal group of docks in East London represents a new and imaginative concept in air travel. The Secretary of State for the Environment granted planning approval for the development on 23 May 1985. It has been designed to accommodate STOL (short take off and landing) aeroplanes which require no more than 762 metres of runway, primarily the quiet 50 seater de Havilland Canada Dash 7. Stolport is expected to provide scheduled services to a number of domestic and European destinations and will be conveniently located to serve business passengers travelling to and from the City and central London. Capacity is projected to build up to about 1 million passengers per year within six years.

Heliports

7.13 The helicopter provides a direct and potentially rapid means of transport over short-haul routes and is therefore particularly attractive for businessmen. But in order to realise this potential, heliports must be available close enough to city or business centres to reduce to a minimum the need for surface transport at the beginning and end of a journey.

7.14 The main central London facility is the heliport at Battersea where the volume of traffic is restricted by a planning condition which limits the number of movements to

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12,000 per year. A floating helistop is provided in the City at Trig Stairs but can only take helicopters of a limited size. There is currently some spare capacity at both facilities. Planning permission for the City helistop has now expired and consideration is being given by the industry and the local authorities concerned to a number of possible alternative sites for its permanent relocation.

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SECTION 8

Aircraft Noise

8.1 The development of airports inevitably has an impact on surrounding areas; and a major feature of this impact is aircraft noise. The choice of sites and the detailed planning of developments must take full account of this and avoid any unnecessary nuisance. The Airports Inquiries Inspector gave full weight to these considerations in his recommendations about particular London airports, and those recommendations are discussed in Section 5. In addition he made a number of more general recommendations about aircraft noise: these are the subject of this Section.

The Measurement of noise

8.2 There is no absolute measure of disturbance from aircraft noise - nor can there be, given the subjectivity of individual reactions - but the Noise and Number Index (NNI) has hitherto generally been accepted in the UK as a reasonable guide. However, a recently completed research project, commissioned by the Department of Transport (DR Report 8402) has concluded that the NNI system of measurement might be replaced by one based on the Leq (Equivalent Continuous Sound Level) scale. This would bring some advantages: Leq is used internationally to measure acoustic energy and an Leq-based index can cover all forms of noise including night noise, background noise and helicopter noise. It was suggested at the Airports Inquiries that, because an Leq-based index could also measure background noise, it is more suitable than NNI for assessing the noise impact of airport development at essentially rural sites such as Stansted. It is also argued that in the longer term as quieter aircraft are steadily introduced, an Leq based index could be a more reliable measure of lower levels of noise than NNI. The main disadvantage of a change would be that, because of the lack of historical Leq data, it would not be possible to compare future noise patterns with the past without

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operating the NNI and Leq systems in parallel for several years. Noise disturbance must be monitored as accurately as possible, by methods that fairly represent the level of annoyance experienced, thus commanding public confidence. The Government will therefore consult all interested parties on the case for a change in the system of measurement, and the appropriate time for any change.

8.3 There is no doubt that the improvements in the noise climate around airports which were forecast in the 1978 White Paper have been borne out in practice. For example, the extent of the improvement at Heathrow, which experiences the most severe noise problems of any airport in the UK, can be judged from Table 10 below which shows that the area within the 35 NNI contour has fallen from 826 sq kms in 1974 to 507 sq kms in 1983.

TABLE 10: Heathrow Airport - Area within NNI contours

NNI	Square kilometres					
	35	40	45	50	55	60
1974	826	402	194	96	51	30
1975	814	378	185	92	50	29
1976	783	365	169	84	47	29
1977	670	296	132	72	43	27
1978	666	292	147	79	46	28
1979	699	304	157	83	47	29
1980	573	273	132	69	39	25
1981	475	236	118	62	33	21
1982	540	236	114	60	34	22
1983	507	208	101	54	33	21

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Noise reduction at source

8.4 A number of measures have contributed to the improvements shown above. The most significant, which has had a beneficial effect at all airports, is the Government's policy on aircraft noise certification, which serves to reduce aircraft noise at source. The banning from UK airports of non noise-certificated subsonic jet aeroplanes - from 1 January 1986 for UK registered aeroplanes and 1 January 1988 for foreign registered aeroplanes - has accelerated the progressive replacement of non-complying aeroplanes with quieter types which meet the standards recommended by the International Civil Aviation Organisation (ICAO). The improvement in the noise climate can be expected to continue until the bans become fully effective. In the longer term, further reductions in noise at source will depend upon advances in aircraft noise technology.

8.5 The Inspector recommended that the Government should consider legislation to enforce the introduction of even quieter aircraft. At present, noise-certificated subsonic jet aeroplanes have to meet the standards laid down in ICAO's Annex 16, Volume 1, 'Aircraft Noise', and fall into two categories: Chapter 2, and the more stringent Chapter 3. The Government accepts that the eventual phasing out of Chapter 2 aeroplanes would be a logical step once all non noise-certificated subsonic jets have been banned, and the need for action in this respect is recognised by civil aviation administrations internationally. But since aircraft have long operational lives, the replacement of Chapter 2 by Chapter 3 types will be a long and expensive process and needs careful consideration to ensure that the costs are commensurate with the environmental benefits. Progress must depend on international agreement. The Government will continue to play a leading role within the European Civil Aviation Conference (ECAC) and ICAO in developing noise

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certification standards and controls to limit the use of Chapter 2 aeroplanes.

8.6 Differential airport charges can help to encourage the use of quieter aircraft. In accordance with ICAO guidelines, the BAA have operated a system of noise related charges for several years, offering rebates on landing fees for non-jet and noise-certificated jet aeroplanes. From 1 April 1985, all non noise-certificated subsonic jet aeroplanes will be subject to a 25% surcharge on the landing fee at BAA airports. Similar arrangements apply at several local authority airports. The Government strongly supports the principle of penalty charges for non noise-certificated aeroplanes which will further encourage the phasing out of noisier aircraft. Individual airport authorities are best placed to determine the role such charging schemes should play. The Government will review with the CAA the part to be played by noise related charges as part of its future airport regulatory functions.

8.7 While considerable improvements have been made to the noise performance of subsonic jet aeroplanes, the Government recognises that supersonic transports (SST) - of which Concorde is the only one currently in use - present a special problem. The Inspector has recommended that future SSTs should be required to comply with the noise certification standards applicable to subsonic jet aeroplanes. ICAO recommended in 1979 that future versions of existing SSTs should be no noisier than the current types. However it is unlikely, for economic reasons, that further SSTs will be produced and no manufacturer is known to have plans for doing so. The Government will continue to monitor the position through ICAO and, should plans emerge for further SSTs, will press for appropriate ICAO noise standards to be introduced.

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Noise abatement at Airports

8.8 However effective these measures are to reduce noise at source, there will inevitably continue to be a need for a range of operational abatement measures. The Secretary of State at present has direct responsibility for the control of noise arising only from aircraft taking off and landing at Heathrow, Gatwick and Stansted, through the powers of designation conferred by sections 78 and 80 of the Civil Aviation Act 1982. At all other UK aerodromes, the Government expect the owners or operators to reduce, so far as is practicable and reasonable, the disturbance caused by their operations. The Government considers that it is essential to maintain existing noise abatement measures at Heathrow and Gatwick, such as maximum noise limits and noise preferential routes on take-off, and restrictions on night movements (see Section 5), and will continue to encourage the use of other measures such as quiet take off and landing procedures (and, at Heathrow, runway alternation) subject to the paramount requirements of air safety. As explained in Section 5, a similar range of measures will be introduced at Stansted as traffic develops, to supplement the measures which are already in operation.

8.9 Compliance with noise limits on take-off where these exist is monitored. As quieter aircraft have come into operation, the rate of compliance with these limits at Heathrow, for example, has improved significantly, the rate of infringement falling from 1.7% in 1979 to 0.5% in 1984. The Inspector recommended that such noise limits and noise monitoring procedures should be reviewed with a view to introducing lower limits by 1 January 1986. The Government accepts that comprehensive monitoring of noise limits plays an important role in the control of aircraft noise and is committed to ensuring that the systems at the designated airports are as effective as possible. However, because of the need to consider all options fully and consult the relevant interests, the suggestion that changes should coincide with the 1 January 1986 ban on UK

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agreement. [However, the Government will consider whether owners of noise blighted properties should be able to require an airport authority to purchase them].

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PART III: OWNERSHIP AND REGULATION

SECTION 9

Structure and Ownership of Airports

9.1 Having settled a strategy for the development of airports over the coming years, the Government believes that now is a good time to review their ownership and their regulation.

Present Ownership

9.2 The present pattern of ownership of airports is essentially that envisaged in the 1961 White Paper on "Civil Aerodromes and Air Navigational Services". The British Airports Authority, a statutory corporation established by the Airports Authority Act 1965, owns three of the four London area airports - Heathrow, Gatwick and Stansted - and the four major Scottish airports - Edinburgh, Glasgow, Prestwick and Aberdeen. Its London airports enjoy a near-monopoly position, handling 44 million passengers a year compared with under 2 million at Luton. Its 7 airports account for nearly 80% of the international passengers handled at all UK airports.

9.3 Most of the other important airports are owned by one or more local authorities. These include Luton, the fourth airport in the London area. Manchester, Birmingham, East Midlands and Newcastle are other major airports in this category. There are a small number of privately owned airports, the largest of which is Southampton, and the Civil Aviation Authority owns and operates a number of small aerodromes in the Highlands and Islands of Scotland.

9.4 In Northern Ireland, the main airport, Belfast International Airport (Aldergrove), is owned by Northern Ireland Airports Limited, a wholly owned subsidiary of the Northern Ireland Transport Holding Company, which is in turn wholly owned by the Department of the Environment, Northern Ireland.

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9.5 The Government is committed to converting as many as possible of Britain's airports into private sector companies as part of its policy of reducing the role of the State. The Government is confident that the privatisation of airports will bring substantial benefits. Besides reducing the size of the public sector, privatisation will assist the Government's objective of creating wider share ownership. It will also increase employee participation as employees will be encouraged to buy shares at the time of sale. Privatisation should also provide for greater freedom for management. For example, airports will have access to private capital, unrestricted by public expenditure constraints. It should also produce more innovative management, efficiency gains and greater responsiveness to customers. Privatisation of airports cannot, however, achieve one of the usual objectives of privatisation, an increase in competition, for the reasons described in para 9.9. But the main thrust of the Government's aviation policies is to increase competition between airlines, and the achievement of this aim is dependent on the coordinated provision of adequate airports capacity.

British Airports Authority

9.6 The British Airports Authority has been consistently profitable, making a current cost operating profit of £49.5m in 1983/84. The Government has decided to privatise the BAA as a whole, and will seek powers to turn the BAA into a public limited company at an early date. The equity of BAA plc will initially be vested in the Secretary of State, but it will be the intention to offer it for sale soon after. Privatising BAA as a whole will retain maximum flexibility in the administration of Government aviation policies; and can be implemented speedily once the legislation is passed. Besides the benefits enumerated in the preceding paragraph, the new BAA plc will be able to expand into non-airport activities from which the BAA as a nationalised industry has been excluded.

9.7 The new BAA plc will need to be regulated to ensure that it does not abuse its monopoly position (see section 10).

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9.8 The Government recognises that there is some concern that Stansted is currently subsidised from BAA's profits at its other airports; and that its charges are lower than they might otherwise be. (The Government would expect BAA, if it remained in the public sector, to increase landing charges at Stansted quite steeply as development proceeded in order to meet the costs of providing new capacity.) In order to ensure that cross-subsidy is inhibited, the Government has decided that Stansted and the other BAA airports should be formed as separate companies, under one holding company, with each of the 7 companies producing separate accounts. This structure, together with the regulatory system described in section 10, should ensure transparency, effective management control, and a pricing system that will not distort the demand for air transport between the airports in the London system and airports in other parts of the country. The Government believes that these arrangements taken together will ensure that demand is not attracted away from the regions by price-cutting in the South East.

9.9 The Government examined a number of other options for privatising the British Airports Authority. One possibility considered was to break up the BAA and to sell off its 7 airports separately. Although this would have reduced BAA's dominance, this option was found not to bring substantial real advantages, and to have some important disadvantages.

9.10 First, the volume of business switching from one airport to another within a group to enjoy lower landing charges or better service standards is, on past experience, very small. The natural tendency within a group of airports serving a single market or region is for airlines to concentrate their services so that one airport becomes dominant. This is because airlines operating scheduled services aim to maximise their carryings of connecting or interlining passengers. Compared to these revenue benefits, the effect of airport charges on airline costs is relatively unimportant, so that even in a totally deregulated market, effective competition between airports would be limited.

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This is especially true in the London airports system where Heathrow has maintained its dominance as a traffic hub despite its higher landing charges. Moreover, although the London airports have limited catchment areas of their own they are not independent enterprises. They constitute together an integrated airports system serving London and the South East. If the airports were separated, the prospects, and profitability, of each individual airport would be very largely dependent on decisions made by Government, both as to the licensing of services and planning consents at the airport in question and at the other London airports. The Government has intervened for some time in distributing traffic between the airports, and further intervention may well be necessary when the airports have reached their physical limit: to decide whether airport capacity can be expanded to handle future growth, or whether services are to be turned away, and where else they might be handled. Separate ownership would introduce undesirable rigidity into the administration of Government policy for route licensing and traffic distribution, and for airport development.

9.11 The Government decided, therefore, that even though BAA's London airports should be operated as far as possible as separate companies, they should be sold as an entity. The same arguments apply to the Scottish lowland airports where the existing policy that governs their operation has only recently been confirmed following detailed review (see paragraphs 6.34 - 6.37).

9.12 The Government also considered whether the BAA should be sold as two separate groups of airports - London and Scottish. Separate sale seemed at first an attractive option as the two groups of airports serve geographically distinct markets and are apparently not closely related. But separation would do nothing to increase competition, and could jeopardise the efficiency gains that have been achieved at the BAA's Scottish airports. These are expected to make a trading profit (on a current cost basis) in 1984/85, and thereafter to continue to be profitable. Although operated as a separate division within BAA, the Scottish airports benefit from the services supplied centrally

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by BAA Headquarters eg training and financial control, and from Board and senior management supervision. Both sets of airports benefit from the interchange of staff. It is questionable whether the Scottish airports, as a separate group, could attract adequate quality of management staff to take on the necessary new activities. There would certainly be a delay before the airports could become sufficiently established as a wholly separate enterprise to be attractive to investors, and this would deny to the Scottish airports and their employees the benefits of early privatisation.

Local Authority Airports

9.13 There are 50 or so aerodromes owned by local authorities. 5 of the more important regional airports are owned in whole or in part by a metropolitan county council. Birmingham International and Liverpool airports are wholly owned by the West Midlands and Merseyside County Councils respectively. Manchester International (50% owned by the Greater Manchester County Council), Newcastle (71.6% owned by Tyne and Wear County Council) and Leeds/Bradford (one-third owned by West Yorkshire County Council) are jointly owned with one or more district or shire county, and run by joint committees. Under the Local Government Bill currently before Parliament, the metropolitan county councils will be abolished on 1 April 1986. On abolition, the airports' interests of these Councils will pass to the districts comprising them if they can agree on the transfer of the property, rights and liabilities involved and on arrangements for their future operation. If the district councils are unable to reach agreement, the metropolitan county councils' interests will be transferred to the appropriate passenger transport authority. The existing interests of district or shire counties in the airports will be preserved.

9.14 The other local authority airports are run either by local authority committees or, where airports are jointly owned by more than one local authority, by joint committees.

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9.15 The Government is not convinced that running local authority airports through committees or joint committees is the most efficient means of managing what in many cases are substantial businesses. The Government believes that these airports would be run more effectively if they were constituted as Companies Act companies, with the shares held, initially at least, by their local authority owners. This would bring several advantages: a formal management structure which will define directors' responsibilities more clearly; a requirement to ensure that arms length commercial charges shall apply for any services provided by a local authority to a company, together with a clear indication of the extent of any rate subsidy or dividend paid to the local authority owners; a requirement to produce Companies Act accounts; and an ownership structure which is flexible and can facilitate changes of ownership within the public or private sector. The Government will legislate at the earliest opportunity to effect these changes, providing powers for the Secretary of State to require designated local authority airports (for instance, those with an annual turnover of more than £1m) to be formed into companies.

9.16 The Government believes that at least for the largest regional airports, private sector ownership and management would have major advantages, similar to those that will follow from the privatisation of BAA. The Government will encourage local authority owners to involve the private sector as concessionaires and contractors in the development and running of their airports. The proposed legislation will also provide for local authorities to have the power to dispose of some or all of their shares in the new airport companies to the private sector as well as to other authorities. Local authorities may well wish to make use of these powers, especially in order to help them with the provision of new capital for the finance of the new development that the growing volumes of traffic will in due course require. Although the Government will encourage them to introduce private capital, it has decided not to ask for powers to compel them to do so.

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Civil Aviation Authority Aerodromes

9.17 The Civil Aviation Authority aerodromes meet an important social need serving remote communities in the Scottish Highlands and Islands. For that reason the Scottish Office contributes towards the costs of their operation. The Government has decided that the aerodromes should remain with the CAA. Their operation should, however, be as transparent as possible. In order to achieve this, the Government is asking the Authority to separate ownership and management of the aerodromes from its mainstream business, and to operate them as a separate company.

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SECTION 10

Regulation of Airports

10.1 Airports are not an end in themselves: they exist to support air services. The Government recognizes that by the time of privatisation there must be adequate regulatory arrangements in place to ensure that the policies pursued by the management of the major airports fully support the Government's aviation policies, particularly for a liberalised and competitive airline industry; that airlines and consumers are protected against abuse of monopoly; that the Government can meet its international obligations; and that essential safety, environmental and security standards are met. Not all of these objectives, however, require new measures.

Safety

10.2 Safety is regulated through an aerodrome licensing system administered by the CAA. This licensing system already applies to all airports, regardless of ownership, and can continue unchanged after privatisation.

Security

10.3 Regulation of security (anti-hijacking and anti-terrorist measures) is administered by the Department of Transport and relies on the Secretary of State's power under the Aviation Security Act 1982 to issue directions to airports (and airlines). These powers also apply to all airports regardless of ownership and can continue unchanged after privatisation.

Environment

10.4 Measures taken by airport authorities in respect of aircraft noise are not in most cases the subject of regulation by central government, though the Secretary of

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State has power to bring airports under regulation by designating them under Section 80 of the Civil Aviation Act 1982. The Section 80 power applies to all airports (except those in Northern Ireland) regardless of ownership, and its future use can be regarded as an issue independent of privatisation. The Secretary of State has exercised this power in respect of Heathrow, Gatwick and Stansted, and has already confirmed that he will continue to exercise it in respect of these airports after privatisation. The impact of airports on the environment is also controlled through the planning system.

New measures

10.5 New regulatory measures will, however, be required to achieve other objectives.

International obligations

10.6 The United Kingdom's international obligations require that airports are available to aircraft of other states without discrimination, and that airport charges are related to costs and allow only reasonable profits. The requirement not to discriminate is a condition of the aerodrome "public use" licence granted by the CAA, and so does not require special measures. The Secretary of State for Transport will need appropriate powers to secure the fulfilment of the UK's other international obligations, present and future.

Traffic distribution policy and atm limits

10.7 Section 11 explains how the Government proposes to take powers to set atm limits at airports and to control the distribution of traffic between them where there is need for this.

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Fair trading and safeguards against monopoly abuse

10.8 As a nationalised industry the BAA has enjoyed certain exemptions from competition legislation. The Government does not believe, however, that airports should continue to enjoy these exemptions after privatisation. It proposes therefore that privatised airport companies should be subject to the competition laws that apply to other private sector enterprises.

Traffic charges, revenues and costs

10.9 Regulating traffic charges is a complex matter. It will be necessary to ensure not only that overall charges are not excessive, but that charges are cost-related and that smaller operators are not priced out of congested airports contrary to the Government's civil aviation policy. Safeguards will also be necessary against distortion of the air travel market through predatory pricing by an airport authority - ie abuse of an airport authority's monopoly power in order to attract traffic from elsewhere regardless of the cost. However, in monopoly industries such as airports predominantly are, effective control of prices also requires some safeguard against lax cost control and inefficiency. To deal with these matters the Government proposes to introduce legislation to extend the Civil Aviation Authority's existing responsibilities for the UK aviation industry to cover the regulation of airports' traffic charges.

10.10 This regulation of airports' traffic charges will be no more onerous than necessary. The CAA will need to carry out some regular functions such as keeping themselves informed of traffic charges and dealing with users' complaints; they will need powers to correct any abuses - overpricing, discriminatory pricing, predatory pricing - that these complaints bring to light. For the most part, however, the Government does not consider that a system of continuous and detailed regulation of traffic

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charges is either necessary or appropriate for airports in the private sector: it envisages an arrangement not dissimilar to that already in use for British Telecom under which a formula to govern maximum prices - for example RPI minus X*, with limits to annual increases in specific prices - would be established at the outset and reviewed every, say, 5 years. The Government proposes that towards the end of each 5 year period the Monopolies and Mergers Commission would review the airport company's affairs including its cost structure and efficiency, and would report to the CAA; appropriate steps would then be taken to remedy practices found to be adverse to the public interest, and on advice from the MMC the CAA would lay down an appropriate formula to govern traffic charges for the next period. Between these quinquennial reviews, unless there were some major dislocation that invalidated the set formula, the airport company would be free to run its business as it thought best, provided it kept its traffic charges within the level permitted by the formula, acted consistently with the Government's international obligations and avoided specific monopoly abuses such as predatory pricing.

10.11 The Government will also wish to ensure that, in line with our international obligations, airports' commercial activities (duty free and tax-free shops, airport restaurants, car parks etc) continue to contribute towards meeting airport costs; and that international passengers at the major airports continue to enjoy the benefits of duty-free concessions.

* prices may not go up by more than the Retail Price Index, less an amount representing a targeted increase in productivity.

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Scope of regulation of traffic charges

10.12 Local authority airports, as well as those belonging to the BAA, enjoy some local monopoly. The Government considers that some of the major local authority airports, as well as those of the BAA, should come within the new regulatory regime described in paragraphs 10.9 and 10.10 above, once they are constituted as companies under the proposals in this White Paper, whether they continue in local authority ownership or are sold, in whole or in part, to the private sector. The legislation will therefore provide for this regulatory regime to apply to major airport companies, whatever their ownership.

Consultation

10.13 Airport owners will continue to be expected to make adequate arrangements for consultation with their customers and with local interests.

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SECTION 11

Traffic Distribution Policy and ATM Limits

11.1 As airports become busier, there may come a need for another kind of regulation. There may be a need for a mechanism for distributing traffic rationally between the airports of a single system and for allocating scarce capacity at a particular airport. This section considers the need for such regulation and how it might best be done.

Need for traffic regulation

11.2 Long before any airport reaches its full annual capacity, there will be intense competition among airlines for the favoured peak slots. (A slot is an allotted period of time to use the runway for landing or take-off). Thus at any airport there have to be effective means for rationing the available slots. So far this job has been largely left to Airport Scheduling Committees, made up of the airlines using the airport, operating on a give and take basis within guidelines agreed internationally between the airlines. In practice, the basic working rule of such Committees has been that of grandfather rights - whereby those who are already operating have a first claim on the slots they are already using. But, where, as at Heathrow, the potential demand to land has been higher than the capacity, the Government has introduced policies that restrict the admission of certain classes of traffic.

11.3 At present there are two main rules at the London airports, intended to relieve congestion at Heathrow and to build up Gatwick as a second international hub airport. Since April 1977, no airline not then operating scheduled international passenger services to Heathrow has been allowed to start such services at Heathrow. In addition whole plane charter operations have been banned from Heathrow, although a modest relaxation was introduced from 1 June 1983 to permit ad hoc sole use and special event charters from Heathrow in the daytime period.

11.4 These traffic distribution rules are supported by international air services arrangements, where rights to operate to London may exclude Heathrow, and enforced through operating permits. They are also taken into account by the CAA in deciding

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whether to license services by UK airlines. Through its pricing policy, the BAA seeks to achieve efficient use of its airports with prices related to long-run marginal costs, including large differentials between peak and off-peak periods. Recently they have moved to a flat-rate landing charge at peak hours, reflecting the opportunity cost of scarce runway space, a logical step towards efficient use.

11.5 The only airports system other than London in which traffic distribution rules are applied at present is the Scottish lowland airports; the Government has recently confirmed that the current distribution policy between these airports is to be maintained, as set out in paragraphs 6.34 - 6.37.

11.6 In the future the Government expects and intends that there will be a steady growth in the degree of competition between airlines in respect of both international and domestic flights. It is against the interests of air travellers that their choice of carrier should be artificially restricted, and the Government is concerned that the restrictions that are imposed should be the minimum that is compatible with the efficient operation of airports, subject to ensuring that they provide fair access for UK airlines to UK airports and comply with our international obligations not to discriminate against foreign airlines.

11.7 In principle, one way of achieving this would be through a market-clearing system of airlines bidding for landing slots, regardless of grandfather rights. But such is the potential demand at Heathrow and Gatwick that such a system could not be expected to work without raising the general price of slots at those airports well above the airports' long-run marginal costs. This would not be compatible with our international obligations to ensure that airport charges are cost-related. Moreover, its likely effect would be to reinforce rather than weaken the hold of the present users of slots. Notwithstanding the value to Heathrow and its users of its unrivalled opportunities for inter-lining, there is a danger that the vital domestic services which form part of that value would not be able to withstand the competition from the international services, whose larger planes would on the whole be better able to afford the

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consequent higher landing charges.

11.8 Nevertheless, the Government believes that the present system, if continued without change, will increasingly limit competition between airlines, to the ultimate detriment of air travellers. In seeking an alternative system the Government will be guided by four principles:

(i) Any system must fully respect our international obligations, and, in particular, the obligation not to discriminate between airlines on grounds of national origin. That is not only in the interest of air travellers generally but specifically of UK travellers since the ability of UK airlines to compete abroad depends on all countries abiding by this obligation.

(ii) The detailed job of deciding who should operate and when has to be left to the airlines, working through airport scheduling committees.

(iii) There will continue to be a need for traffic distribution rules designed to ensure that the volume of the potential demand for landing rights at any particular airport is broadly in line with its capacity as defined by operational and other factors. That policy will, as now, be achieved primarily through the air transport licensing system and through the scheduling committees; but the public interest may also require the present administrative arrangements to be supplemented by specific formal guidance or rules as to the priority to be given, for instance, to domestic or international traffic, or to scheduled or non-scheduled traffic.

(iv) There should, if possible, be a larger role for the market than now in the working of the system.

Future traffic distribution policy

11.9 The Inspector at the Airports Inquiries set out strategic aims for each of London's airports in his report (Part VI, Chapter 54, Section 3) as follows:-

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"Heathrow will continue as the dominant partner in the London system in its role as the major international airport concentrating on premium scheduled services, but without derogating from its important function as a hub for domestic traffic seeking access to London and the south east or taking advantage of the unrivalled range and frequency of service available;....."

"Gatwick will continue to develop its role as a major international airport for scheduled services but without derogating from its function as a London airport for domestic services;....."

Stansted: "will have the primary role of accommodating such services as are to be transferred from Heathrow and Gatwick and of providing facilities for new airlines concerned to set up and operate leisure oriented services in the London airports system without prejudice to such other services as existing or new airlines might wish specifically to operate at Stansted;....."

Luton: "without prejudice to such development as is subsequently approved under current planning procedures. Luton will continue to play its current role."

11.10 The Government acknowledges that these aims form a coherent strategy for the operation of the London airports system; but it wishes to consider further how far these aims are compatible with its other objectives for the civil aviation industry, and whether there is any other allocation of roles that better meets the needs of the industry. There are obviously some potential conflicts here. For instance, the development of both Heathrow and Gatwick as major international hubs for scheduled services may be difficult to reconcile with the objective of preserving fair access to those airports by UK airlines operating other than international scheduled services. There may be a number of ways in practice of partially reconciling these conflicting considerations, and it will be important to choose the one that best meets the interests of the UK industry and air traveller.

11.11 The Government therefore considers that these issues

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should be examined in detail in consultation with the industry and its users. The Civil Aviation Authority will be invited to review the present rules for traffic distribution between the London airports, taking account of the Government's policy objectives and to advise on the need for any changes.

11.12 In the meantime the current ban on charter operations at Heathrow will be maintained, including the modest relaxation set out in paragraph 11.3. In furtherance of its policy of increasing airline competition the Government has, however, decided to make a small adjustment in the rule governing the operation of scheduled international services out of Heathrow (see paragraph 11.3). Airlines who have ceased operating international scheduled services out of Heathrow since 1977, when the present rule came into force, have not been prevented under the rule from resuming operations there. The Government has decided that this concession should be extended to any airline which ceased operating such services out of Heathrow before 1977. In future, therefore, there will be no automatic bar on an airline that has at any time previously operated scheduled international passenger services at Heathrow from resuming such services.

Proposed new powers and statutory framework

11.13 The Government proposes to introduce legislation which will include provision for the Secretary of State to promulgate rules on traffic distribution in respect of any two or more airports seeming to him to serve the same city or cities for which a traffic distribution policy is in his view desirable. Before formulating such rules, he will be empowered to seek the advice of the CAA, putting to them any overriding considerations (ie policy objectives and international obligations) which they must take into account and requiring them to consult the civil aviation industry and its users.

11.14 Provision will also be made for this traffic distribution policy to be enforced, including giving the CAA a duty to take account of any traffic distribution rules made by the Secretary of State.

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11.15 As already explained above (Paragraphs 5.4 - 5.5), the Government proposes to take powers to set limits on air transport movements at airports. Although it proposes to use these powers to set an ATM limit initially only at Stansted (paragraph 5.27), the pressure of traffic at the London airports, particularly at peak hours, will cause strains and the Government considers that machinery must be available to allocate slots, and possibly apply ATM limits, in case the voluntary system of allocation by the scheduling committee ceases to work satisfactorily.

11.16 The Government considers that the Civil Aviation Authority, with its role in respect of the regulation of air transport and proposed role in the regulation of airports (see paragraph 10.9), is the most appropriate body to devise a scheme for allocating scarce capacity in consultation with the industry. Although the Government has no wish to prejudge the CAA's conclusions, one of the options it would like the CAA to examine is a system of trading of landing slots between airlines, under which those airlines allocated slots by the scheduling committees in the normal way would be able to sell these to other airlines who wished to gain access and who had the required licences or permits for the airport concerned. Such a scheme might help to ensure some flexibility in the system particularly when an airport is becoming more and more congested; no airline would be forced to surrender its slots, but slot trading could make it easier for airlines to find mutually acceptable ways to adjust their schedules. It would also have the benefit of a large degree of continuity with existing arrangements.

11.17 The Government therefore proposes to introduce legislation whereby the CAA would, at the Secretary of State's request, have the duty of developing and promulgating a scheme for allocating scarce airport capacity. The scheme would be subject to the Government's approval and could be referred back to the CAA or amended by the Secretary of State. It could also be changed in the light of experience.

11.18 The authority responsible for an airport to which a scheme was applied would be under a duty to comply with it and to play any part assigned to it in such a scheme.

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SECTION 12

Summary

12.1 This section draws together the decisions taken by the Secretaries of State for Transport and for the Environment on the planning applications by the BAA (Stansted) and Uttlesford District Council (Heathrow Terminal 5) for which the reasoning is set out in detail in the formal decision letters; and the Government's decisions on airports policy more generally.

Heathrow

12.2 On the Heathrow Terminal 5 application, the Secretary of State for the Environment concluded, following the Inspector's recommendations, that it would be a long time before the Perry Oaks sludge works could be moved, and that no terminal on the site could therefore come into use in the early 1990s. He also agreed that access to the terminal would be inadequate, and he has refused the application.

12.3 Further studies will be carried out by the Thames Water Authority and the BAA to see whether, when, and at what cost the land now occupied by the sludge works can be released to the airport. At the same time, the Department of Transport will commission studies on the improvement of access to Heathrow, considering road, rail and underground links together. These studies are essential in their own right since Heathrow's cramped site and restrictions on access will constrain the airport's effectiveness when Terminal 4 is fully in use. The Government has not reached any conclusion from the evidence available so far on whether a fifth terminal will be required. This can be assessed only when the studies are completed and there is firmer evidence on the factors that determine the effective capacity of Heathrow's runways, taking into account the environmental effects on the surrounding area. Any proposal for a new terminal on the Perry Oaks site would be subject to planning permission.

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12.4 The Government accepts the Inspector's recommendation that a limit of 275,000 air transport movements at Heathrow would be unnecessarily restrictive and that it should be abandoned. However, it will seek powers to introduce ATM limits at airports where they may prove to be necessary to regulate the growth and distribution of traffic, as part of its airports policy.

Stansted

12.5 The BAA's application to develop Stansted was considered jointly by the Secretaries of State for the Environment and Transport. In the light of the Inspector's assessment of the timing of and need for additional capacity in the South East, as corroborated by the Government forecasts, they agreed that this could be provided only at Stansted and accordingly have granted outline planning permission for a development of up to a maximum capacity of 15 mppa. However, they have imposed conditions to ensure that the development is carried out in phases and that the first phase is sufficient to cater for a throughput of no more than about 7-8 mppa. This is an increment of 5-6 mppa on Stansted's current capacity. They have accepted the Inspector's recommendation that there should be no second main runway, and the land required for its construction will not therefore be safeguarded.

12.6 The Government proposes to introduce, by taking powers in legislation, an ATM limit at Stansted sufficient to allow for utilisation of the first phase of development. Any increase in the ATM limit would need an affirmative resolution by Parliament. This will ensure that new development will occur only if and when it is accepted by Parliament that additional traffic should be allowed at the airport as necessary to meet demand. The Government will propose an increase in the ATM limit to Parliament only if the need is clearly demonstrable.

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12.7 Under the Government's proposed changes to the financial structure of the airport industry, (Section 9) Stansted will produce separate accounts showing the cost of any development capital invested there. There will also be safeguards against unfair competition, to protect the interests of local authority airports.

Luton

12.8 The Government is anxious to make effective use of all London airports. It will invite Luton Borough Council to bring forward proposals to increase the airport's capacity up to about 5 mppa - which is currently estimated to be the limit of what can be handled within existing air traffic control constraints. Any proposal will be subject to the necessary planning procedures.

Business aviation and the London Stolport

12.9 The growth of commercial air traffic at Heathrow and Gatwick will make it increasingly difficult for private and company-owned executive aircraft to use these airports.

Alternative facilities will be available at Farnborough, Northolt and other existing aerodromes in the South East to meet the needs of business aviation. The development of a Stolport in the London Docklands will also make an important and welcome contribution by providing a facility for fast commercial air services from the City to other business centres.

South East airports summary

12.10 It is the Government's responsibility to ensure that there are adequate airport facilities to meet the demand. Failure to provide sufficient capacity will reduce the scope for airline competition to the detriment of the travelling public. These decisions will provide no more than the capacity that is clearly going to be needed by 1995, as follows:

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	1985	1995
Heathrow	30	38-42
Gatwick	16	21-23
Stansted	2	7-8
Luton	3.5	3.5-5
Stolport	-	1
	<hr/> 51.5	<hr/> 70.5-79

Regional Airports

12.11 The Government believes that too many travellers from the regions are forced to use the South East airports. It hopes that Manchester and other regional airports can help reduce the pressures on the South East by attracting more traffic. The air transport licensing policies already announced will assist in this respect. In its negotiations with foreign governments, the Government will give full weight to the interests of regional consumers. Department of Transport officials will be ready to hold discussions with regional airport managements to identify opportunities for growth and assist in obtaining further business. The Government will expect to approve capital expenditure for expansion and improvement of facilities where this can be financially justified, but it hopes that local authority owners will seize the opportunity offered by the reorganisation of the structure and ownership of their airports to attract private capital and expand their operations on a commercial basis.

12.12 The Government believes that these policies will help promote a rapid and economic development of the potential of regional airports, which is one of the principal objectives of its airports policy.

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Aircraft Noise

12.13 The Government fully accepts that aircraft noise causes considerable disturbance to those living near busy airports. There is no completely satisfactory solution to this problem, but the Government is committed to taking all the measures it sensibly can to reduce their suffering.

These measures are described in Section 8. There have already been significant improvements around Heathrow and Gatwick, and more can be expected. Sleep disturbance at night is a particularly difficult problem. The Government will continue with its present policy of restricting night flights at the BAA's South East airports. It does not propose to ban all night flights at Heathrow, Gatwick and Stansted as recommended by the Inspector, but will review its policy after consulting fully with all those concerned when the results of the current study of sleep disturbance by aircraft noise become available.

Ownership and regulation of airports

12.14 The Government's aim is to provide a better framework for airport management, in order to encourage commercial enterprise and innovation. It believes that privatisation will bring substantial benefits and will seek powers to sell off the BAA airports as soon as possible. The BAA's seven airports will be set up as separate companies owned by a single holding company which will then be offered for sale. The seven companies will be required to produce separate accounts to ensure financial transparency in order to make it clear that each company stands on its own feet. The major local authority airports will be turned into companies, and encouraged to attract private sector capital. Local authorities will not be compelled to privatise their airports but the Government hopes that they will see the advantages of privatisation

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and take the opportunity offered by the Government to free the airports from public expenditure constraints. This new structure will be more responsive to customer needs and will support the Government's objective of increasing competition in the air transport industry for the benefit of the passenger.

12.15 A new regulatory framework is needed to ensure that airports fully support the Government's aviation policies and abide by its international obligations. The CAA will have an important role to play particularly in protecting airlines and consumers against abuse of monopoly positions on pricing, but the Government will keep regulation to the minimum necessary so as not to discourage competition and innovation.

12.16 As traffic grows and the London airports become more congested new policies for the distribution of traffic and allocation of scarce capacity will be needed. If necessary the Government will promulgate statutory rules with the advice of the CAA (who will consult airport users) and the CAA will implement them through its air transport licensing function. Where ATM limits are fixed (see paragraph 12.4) the CAA will be able to devise schemes for allocating capacity within the limits, if this proves necessary.

12.17 The policies announced in this White Paper seek to protect the UK's leading position in world aviation: by providing adequate airports capacity to meet demand and supporting airline competition; by reforming the structure and financing of the airport industry; and by regulating its activities only to the extent necessary to protect the traveller, safeguard the environment, meet our international obligations, and support the Government's policies.

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SECTION 13

INDEX OF CONCLUSIONS AND PROPOSALS FOR LEGISLATION

13.1 This section provides a list of the main conclusions and proposals for legislation in the White Paper, with cross-references to the relevant paragraphs of the earlier sections.

CONCLUSIONS

Paragraph

No

13.2 The main conclusions are as follows

THE LONDON AIRPORTS

Heathrow

(1) All reasonable steps will be taken to maintain its leading position in world aviation.

(2) The proposal for an annual ATM limit of 275,000 will not be pursued but powers will be sought to impose ATM limits at airports where this is necessary for traffic management or other purposes.

(3) Removal of the Perry Oaks sludge works is highly desirable. BAA and the Thames Water Authority will be invited to study urgently the options and costs with a view to releasing the site to the airport as soon as possible.

(4) Improvements are needed to surface access links, whether or not further development takes place. A study of the options for improvements to the A4/M4 corridor and a possible rail link will be commissioned urgently. Consultations will take place on improvements to local roads.

(5) The possibility of a fifth terminal will be kept under review, but the Government cannot make any commitment at this stage. Any proposal would require planning permission.

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(6) Use of the cross-runway by commuter aircraft would not increase the available capacity of the main runways; this suggestion will not therefore be pursued.

(7) The BAA will be invited to consider any possible improvements which could help to raise the passenger throughput of the airport's four terminals above 38 mppa, at acceptable standards.

Gatwick

(8) Gatwick should develop to its full potential as a single runway airport. (ie 25 mppa)

(9) The Government reaffirms the policy that a second runway should not be constructed.

(10) The proposal for a commuter runway will not be pursued.

Luton

(11) Luton Borough Council will be invited to bring forward proposals to increase the airport's capacity to about 5 mppa, subject to normal planning procedures. (Currently 3.5 mppa with 0.5 mppa used)

Stansted

(12) Planning permission has been given for the provision of a terminal with a capacity of about 15 mppa and associated facilities.

(13) To guard against the environmental and other implications of any overprovision of capacity, the development of Stansted will be phased; the first phase will be sufficient to handle some 7-8 mppa.

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(14) Subject to enactment of the proposed legislation, an ATM limit will be set to correspond to the first phase of development as a means of ensuring orderly traffic distribution and striking a balance between aviation, local and environmental interests. Increases in the ATM limit will be subject to Parliamentary approval.

(15) The timing and extent of increases in the traffic allowed at the airport will depend on the growth of demand and the contribution made to handling the demand by other airports.

(16) Stansted already has good quality road links but some improvements to immediate access and local roads will be made in conjunction with airport development.

(17) The Government will invite the British Railways Board to undertake a study of the options and costs of a rail link.

(18) The Government will pay particular attention to proposals in local structure plans for airport - associated housing and other development; it attaches great importance to ensuring that the character of surrounding towns and villages is not jeopardised.

(19) All practicable measures will be taken to minimise the effects of aircraft noise and a noise insulation grant scheme will be introduced.

(20) The Government accepts that, in time, increases in demand may justify further development to utilise the full capacity of Stansted's runway (25 mppa), but this will be subject to

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further planning permission and to Parliament's approval for increases in the ATM limit.

(21) The Government does not intend that a second main runway should be constructed in the future and believes that the proposed ATM limit procedure will provide a valuable safeguard against such a development.

(22) The Government will invite the BAA to identify a smaller area for safeguarding, sufficient to accommodate a possible second terminal. There will be no area safeguarded for a second runway.

(23) The BAA will be expected to take early steps to dispose of any land which does not fall within the new safeguarded area.

THE REGIONAL AIRPORTS:

Manchester International

(24) The Government will encourage the development of Manchester as a ~~regional~~ ^{international} hub airport. The steps already taken by BA for new international services from Manchester will greatly aid the airport's development.

(25) A five year plan will be drawn up to provide a positive strategy for increasing the range of international services.

(26) The Government will negotiate with relevant UK interests and the US Government the basis on which US airlines might operate direct scheduled services to Manchester.

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(27) The Government would expect to approve investment in a second terminal when this is justified by demand and return on capital.

(28) The Government will invite the airport authority, local authorities and British Rail to study the case for a rail link and the options. The Government will consider the project on the same terms as the rail link to Stansted and will be glad to approve it if it can be justified.

Scottish Lowland airports

(29) The complementary roles of these airports will be maintained.

(30) Prestwick will continue to be Scotland's gateway airport for long-haul services and the Government expects every effort to be made to improve its financial position.

(31) The Government will invite the relevant authorities to study the case for building a railway station at the airport.

Other Regional Airports

(32) The Government will be ready to approve capital expenditure for expansion and improvements where this can be financially justified.

(33) The Government will continue to support policies of liberalisation to increase the scope for new services.

(34) Every assistance will be given, as necessary, to develop new routes.

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AIRPORTS FOR BUSINESS AVIATION

(35) Arrangements for business aviation at Heathrow and Gatwick should continue to be operated flexibly, but priority will continue to be given to air transport movements.

(36) Alternative capacity will be needed to accommodate growth in business aviation demand.

(37) Existing facilities around London have an important part to play; Farnborough will be developed by the Ministry of Defence to provide additional capacity, and access to Northolt by business aircraft will be facilitated.

(38) The Working Group on Business Aviation will continue to meet from time to time to review developments.

Stolport and heliports

(39) The development of a Stolport in East London will provide a welcome new facility conveniently located for business passengers in the City and Central London.

(40) The Government recognises the value of heliports and hopes that a suitable replacement for the City helistop at Trig Stairs can be found.

AIRCRAFT NOISE

(41) There may be a case for changing the system of measuring noise disturbance (from NNI to Leq) but the Government will consult fully before embarking on any changes.

(42) The policy on aircraft noise certification has brought substantial reductions in the areas

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affected by aircraft noise around airports and the improvement will continue. The Government will play a full role in international discussions on the introduction of even quieter aircraft.

(43) The Government will continue to support the use of noise-related airport charges.

(44) The Government intends to continue with operational noise abatement measures at the designated airports, including night restrictions.

(45) Policy on noise limits and monitoring will be reviewed, and all interests concerned will be consulted on possible improvements.

(46) The effectiveness of the latest noise insulation grant schemes at Gatwick and Heathrow will be reviewed and corrective action taken as necessary.

(47) Research will be commissioned into roof insulation as a means of reducing noise disturbance.

(48) The possibility of providing assistance for noise insulation of schools and hospitals near designated airports will be considered;

(49) The Government will consider whether owners of noise-blighted properties near airports should be able to require an airport authority to purchase them.

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STRUCTURE AND OWNERSHIP OF AIRPORTS

(50) Reducing the role of the State is a key element of the Government's economic strategy, and it is committed to ensuring that as many as possible of Britain's airports become private sector companies.

BAA Airports

(51) The Government will seek powers to privatise the BAA as a single entity, as soon as possible.

(52) To ensure financial transparency, the BAA airports will be organised as 7 separate companies under a single holding company.

(53) The Government expects the new arrangements to benefit the economy, BAA employees, the airline industry and the customer.

Local Authority Airports

(54) The Government is not convinced that running local authority airports through committees or joint committees is the most effective means of managing substantial businesses.

(55) Legislation will therefore be introduced at the earliest opportunity to provide powers for the Secretary of State to require major airports to be formed into companies, with shares held initially by the local authority owners.

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(56) The Government does not intend to require these shares to be sold to the private sector, but local authorities will be empowered to do so if they wish.

(57) Local authorities will be encouraged to involve the private sector in the development and running of airports.

CAA aerodromes (Highlands & Islands of Scotland)

(58) The operation of these aerodromes caters for an important social need and they should remain with the CAA.

(59) To ensure financial transparency, the CAA will be asked to operate them as a separate plc.

REGULATION OF AIRPORTS

(60) Once the changes in structure and ownership of airports have taken place they will be subject to a regulatory regime which supports the Government's airports policy objectives.

(61) Some new regulatory measures will therefore be needed to deal with international obligations, traffic distribution policy and ATM limits, and monopoly abuse.

(62) The CAA will have an important role to play in the regulation of airports.

(63) Airports will be expected to consult with users and local interests.

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TRAFFIC DISTRIBUTION POLICY

(64) Traffic distribution policies for the London airports will remain largely unchanged for the present but the Government will consider how best to achieve its objectives of increasing competition between airlines, and making best use of airport facilities.

(65) New powers will be sought to enable the Secretary of State for Transport to make and enforce rules on traffic distribution between two or more airports serving the same city or cities.

(66) The CAA will have an important role to play in advising on traffic distribution rules, in applying them through its licensing powers, and in implementing any ATM limits.

PROPOSALS FOR LEGISLATION

13.3 A number of the proposals set out in this White Paper require legislation. The Government intends therefore to introduce legislation at the earliest opportunity that will include the following provisions:-

- (i) to reconstitute the BAA as a plc
- (ii) to provide for the sale of shares in the BAA
- (iii) to require local authorities owning sizeable airports to form companies to run their airports
- (iv) to provide powers for local authorities to dispose of shares in their airport companies either to other local authorities or to the private sector

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(v) to provide the Secretary of State with a power of direction to secure the fulfilment of the UK's international obligations in relation to airports

(vi) to extend the CAA's powers so that it can regulate airport charges with help from the MMC

(vii) to enable the Secretary of State to promulgate rules on traffic distribution between airports, after seeking the advice of the CAA; and to provide for the enforcement of such rules

(viii) to enable the Secretary of State to set, and to vary, limits on Air Transport Movements at any airport for which he can lay down traffic distribution rules

(ix) to require the CAA to develop and promulgate schemes for the allocation of capacity at congested airports, and to provide for their enforcement.

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10 DOWNING STREET

Prime Minister (2)

It will be important to ensure that this is presented as Inland Revenue's decision having looked at all the facts of the case and having reached a judgement that it was unlikely to secure more than £1/4 million.

AT 8/5

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

7th. May 1985

Dear Andrew,

LAKER: ATTEMPTED SETTLEMENT

My Secretary of State minuted the Prime Minister on 3 May about the British Airways' proposals for a settlement of the liquidator's case: the Prime Minister and other members of MISC 112 have agreed to BA proceeding as proposed.

The Foreign Secretary refers in his response to the Inland Revenue claim on the liquidator. We understand that a basis has now been found between the Inland Revenue, the negotiators and the liquidator which will enable the liquidator to settle on the basis which has been proposed. This is welcome since it clears the way for a formal offer to be made with a view to getting the settlement under way.

We have heard this morning that the increased contributions of the European airlines are not finally in place, but any shortfall on the \$18 million from them is likely to be small.

Copies of this letter go to Peter Ricketts (Foreign & Commonwealth Office), Margaret O'Mara (Chancellor of the Exchequer's office), Andrew Lansley (Trade and Industry), Henry Steel (Law Officers' Department), Vivienne Life (Financial Secretary's office and Richard Hatfield (Cabinet Office).

Yours,

Richard.

R A ALLAN
Private Secretary

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Future of BA: AEROSPACE LAB.



28 MAY 1985

COMMUNICATIONS

1985

NBA
AT 8/5

Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq
10 Downing Street
LONDON

7 May 1985

Dear Andrew

LAKER: ATTEMPTED SETTLEMENT

The Financial Secretary has seen the Secretary of State for Transport's minute of 3 May to the Prime Minister. This is to confirm, as I mentioned to Richard Allan on the telephone today, that he sees no objection to BA proceeding with a settlement on the lines set out in that minute.

I understand that Richard Allan intends to write separately on the question of Inland Revenue's claim.

I am sending a copy of this letter to R A Allan (Department of Transport), Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Henry Steel (Attorney General's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Vivien Life

VIVIEN LIFE

Aerospace : Future of BA R3

James C. ...

MAY 1985

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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

7 May 1985

LAKER:ATTEMPTED SETTLEMENT

The Prime Minister has seen your Secretary of State's minute of 3 May. She is content that British Airways should make an offer on the lines suggested. She hopes that a satisfactory settlement can soon be reached with Inland Revenue.

I am sending a copy of this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Vivienne Life (Financial Secretary's Office), Henry Steel (Attorney General's Office) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

R A Allan Esq
Department of Transport

FILE

29 (41)
cc: J. Whybray

EU



PM/85/41

PRIME MINISTER

Laker: Attempted Settlement

1. I have seen Nicholas Ridley's minute of ^{with AT?} 3 May. I agree that the settlement BA have secured with Laker's creditors is broadly satisfactory and that BA should put the offer in writing to the Laker liquidator on Tuesday, 7 May. As I understand it, this is still only an offer and we are not yet out of the wood. Nonetheless to have reached this stage is a considerable achievement on the part of BA and their lawyers. I also understand there is an outstanding difficulty with the Inland Revenue. In view of the understanding shown by other creditors, I hope that aspect of the matter can quickly be resolved.

2. Copies of this minute go to the Secretary of State for Transport, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Financial Secretary and Sir Robert Armstrong.

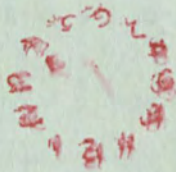
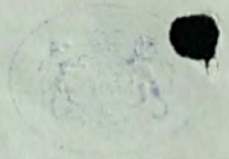
GEOFFREY HOWE

Foreign and Commonwealth Office

7 May, 1985

AEROSTATUS : CAA Review

Pt 3



17 MAY 1985



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CCAO

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Yes mt

PRIME MINISTER ^① Agree subject to colleagues?
(Negotiations are still going on to stop Inland Revenue weighing in and rocking the boat) - see attached letter.

LAKER: ATTEMPTED SETTLEMENT AT 3/5

British Airways' negotiations with the Laker creditors and the other defendants in the liquidator's case have reached the point where they believe that a settlement is in prospect. Pressure on the other defendants finally produced yesterday offers of contributions which seem acceptable and are in any case most unlikely to be increased. BA are required to report progress to the US judge on 8 May. They are advised that it is essential that they make written offers to the liquidator and others before then, if they are to be granted a further extension of the date by which they have to respond to the liquidator's motion to compel discovery of documents. BA have asked therefore whether I see any objection to their proceeding with a settlement on the terms set out below.

2. BA estimate the total cost of the settlement at \$65m-70m. The eventual total could turn out somewhat less as claims come forward. This includes conditional offers which they propose to make next week of \$8m to Sir Freddie Laker and \$8m to the liquidator's US lawyer. The total is less than they had feared at the time of the negotiations with the US Eximbank, because they have been able to persuade the other major creditors of the case for exceptional treatment for Exim alone.

3. As to contributions, BA have secured offers totalling \$18m from the European defendants and BCal; and a further \$18m from the US defendants (Pan Am and TWA). BA's share would therefore be in the range \$29-34m. Of this, payments worth \$12m would take the form of increased



interest payments on loans to Exim, and would therefore be spread over a period. If the total cost of the settlement turns out to be less than \$65-70m, BA would get most of the benefit. \$5m of Pan Am's contribution would also be paid over a period, because of their immediate cash problems.

4. Though I had hoped that BA would have had to bear a smaller share of the total, I am satisfied that they have extracted the most that could be got from the other defendants. The cost to BA is much less than the \$60m which we contemplated when MISC 112 last discussed the settlement on 6 March.

5. Subject to your agreement, and that of my other colleagues concerned, I propose to inform BA that I see no objection to their proceeding with a settlement on these lines. As BA have to make the offers on Tuesday 7 May, I should be grateful to know by noon that day if you see any difficulty.

6. Copies of this minute go to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Financial Secretary, the Attorney-General and to Sir Robert Armstrong.

R. A. Aslam.
(Private Secretary)

for NICHOLAS RIDLEY
3 MAY 1985

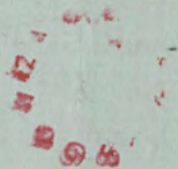
(approved by the Secretary of State
and signed in his absence).



AEROSPACE

Pt 3 future of
BA

ES MAY 1985





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Miss Margaret O'Mara
Private Secretary to
the Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

3 May 1985

Dear Margaret,

LAKER: ATTEMPTED SETTLEMENT

My Secretary of State minuted the Prime Minister earlier today on the proposed settlement. The minute deliberately did not refer to the outstanding matter of a claim by the Inland Revenue on the liquidator, which has been the subject of separate consideration by Treasury Ministers.

Mr Ridley understands that discussions today have not produced a solution to the problem. It is, in his view, essential that a satisfactory solution should be found very urgently. Unless the Liquidator can be assured very quickly indeed that a settlement can be reached with the Inland Revenue which will remove any possibility of subsequent legal action by them against him, we are advised that the settlement cannot get under way. Since the US Judge is now regularly reviewing the progress towards a settlement and his next review meeting will be held on Wednesday 8 May we are at risk that he will feel that the negotiators are dragging their feet; if he does he may unleash again the US discovery processes, the consequences of which Ministers are fully aware.

If the Chancellor considers that a very early meeting of the Ministers closely concerned would be desirable to consider the options, Mr Ridley would be glad to attend.

Copies of this letter go to Andrew Turnbull (No.10), Henry Steel (Law Officers Department) and Vivienne Life (Financial Secretary's Office).

*Yours,
Richard.*

R A ALLAN
Private Secretary

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PART 3 ends:-

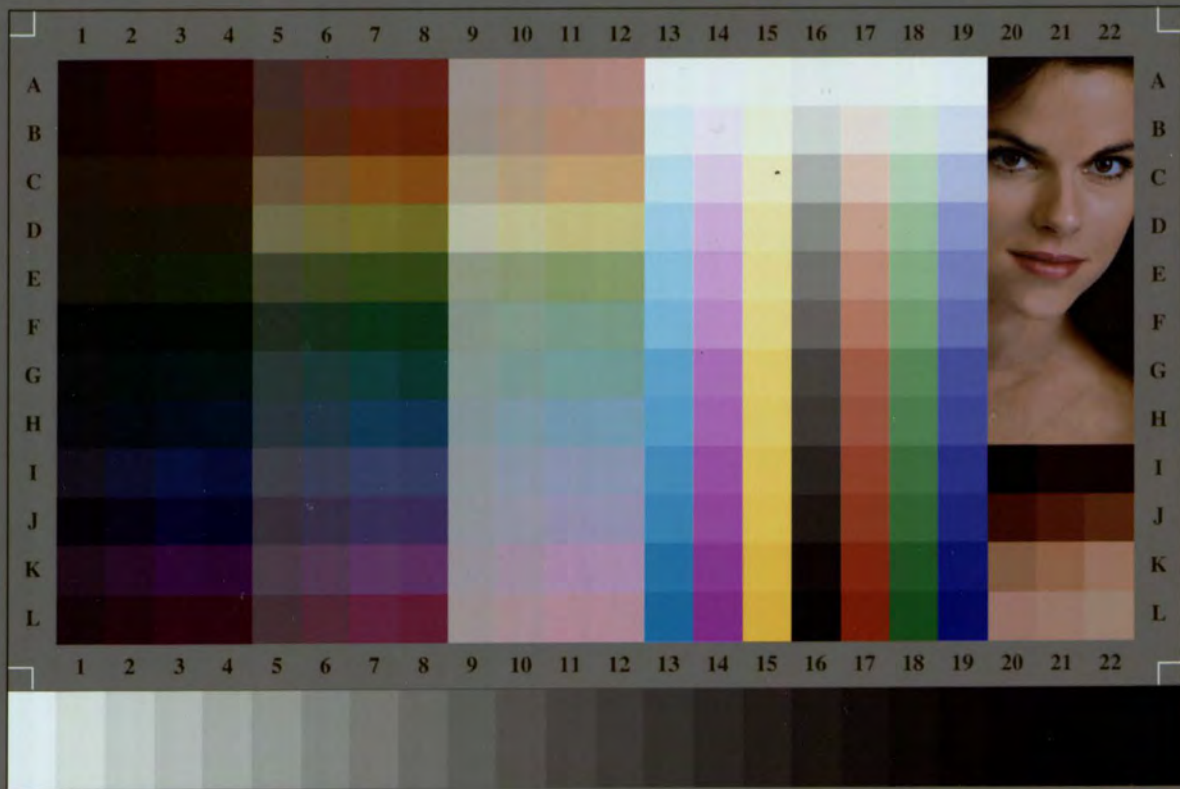
E (A) (85) 8th May LCA 3/4/85

PART 4 begins:-

Transport to HMT 3/5/85

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