



CONFIDENTIAL

P.01527

PRIME MINISTER

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Airports Policy

E(A)(85)17, 18, 19, 20 and 22.

The Sub-Committee will be considering a broad range of issues which fall under the general heading of Airports Policy:

A (i) Airport development in South East England (covered in the Transport Secretary's paper E(A)(85)18, and the Minister for Housing and Construction's paper B E(A)(85)22);

C (ii) policy on airports in the Scottish Lowlands (which is the subject of the Transport Secretary's paper E(A)(85)17); and

D (iii) the structure and ownership of airports in E Britain (this is the subject of the Transport Secretary's paper E(A)(85)19 and the Financial Secretary to the Treasury's paper E(A)(85)20).

BACKGROUND

2. Far-reaching decisions are required on airport development in South East England, following the publication of the Inspector's report on proposals for the development of Stansted and for a fifth terminal at Heathrow. The question of the provision of adequate airport capacity in South East England has been a matter of great political controversy for 20 years, and this remains the situation. Objectors on environmental grounds to the development of Stansted as the third London airport have made common cause with supporters of airport development in the regions,

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CONFIDENTIAL

notably Manchester. The political and Parliamentary aspects of these decisions were the subject of your preliminary meeting on 27 March with the Transport Secretary, the Lord Privy Seal, the Chief Whip and the Minister for Housing and Construction; the outcome of that meeting was reported in your Private Secretary's letter of 27 March to Mr Ridley's Private Secretary.

3. The problem in Lowland Scotland is the opposite of that in South East England: there is surplus airport capacity, and Prestwick, which is designated as the 'gateway' airport for international traffic is under-used and losing money. The question is whether this policy should be maintained, or whether airlines should be permitted to move their flights to Glasgow and Edinburgh.

4. On the structure and ownership of airports, the 1983 Manifesto stated the Government's aim that as many airports as possible should become private sector companies. The question arises, therefore, how this policy should be applied to the major airports under the control of the British Airports Authority (BAA) and also to the regional airports which are generally owned by local authorities. Because of the natural monopoly position of major airports, and of international obligations in the civil aviation field, legislation to privatise BAA airports is likely to require to be accompanied by further provisions to establish a new framework of statutory regulation of airports.

#### MAIN ISSUES

5. The following are the main issues before the Sub-Committee:

(i) should planning permission be given for the development of Stansted as the third London airport, up to a limit of 15 million passengers per annum (MPPA), with the implication that a further major public enquiry would be required before the volume of passenger traffic was



CONFIDENTIAL

increased to the maximum capable of being accommodated by the runway, ie 25 MPPA?

\*Formally, of course, the immediate decision is to reject the Fifth Terminal planning application.

(ii) Should the previously intended Air Traffic Movement (ATM) limit at Heathrow of 275,000 a year be increased on the opening of the Fourth Terminal to a new level which would not imply any effective constraint on the use of the runways? Should any decision on a fifth terminal at Heathrow be postponed until the future shape of air traffic there is clear, with studies being undertaken in the meanwhile of possible improvements in surface access to the airport, and of the implications of moving the Perry Oaks Sludge Works (on which site a fifth terminal would need to be built)?

(iii) Should Luton Borough Council be encouraged to propose a limited development of Luton Airport?

(iv) Should Prestwick be maintained as the 'gateway' airport for international flights to Scotland?           

(v) Should the BAA be privatised as soon as possible? If so, should this be as a single unit or with the London and Scottish airports being privatised as separate groups?

(vi) Should all major airports be established as separate Companies Act Companies?

(vii) In the event of privatisation, should legislation be enacted to impose a new statutory control of access to airports, airport charges and investment in airport capacity?

(viii) When should the Government's decisions be published and debated by the House of Commons?

(ix) Should there be new primary legislation in the 1985-86 Session covering statutory control on ATM limits, BAA privatisation and the regulatory framework?



CONFIDENTIAL

#### Stansted

6. The opening next year of the Fourth Terminal at Heathrow, and the Second Terminal at Gatwick, should provide enough passenger handling capacity to meet London's needs until about 1990. But further capacity will almost certainly be needed shortly thereafter, with availability of runways rather than passenger terminals the operative constraint. The only available runway is that at Stansted, and work will need to start in the near future if the necessary terminal facilities and transport infrastructure are to be provided within the necessary timescale.

Mr Ridley's proposal is that planning permission should be given for development of Stansted up to 15 MPPA, with facilities for 7 MPPA to be constructed as the first stage and the Government undertaking not to increase the ATM limit above that consistent with 7 MPPA without the agreement of Parliament. His intention in limiting the planning permission to 15 MPPA, and in providing Parliamentary safeguards within that figure, is to reassure the Northern lobby that there will be sufficient scope for the development of Manchester. Further inducements would be given to the Northern lobby through action to boost international traffic at Manchester, and to encourage further development of the airport facilities.

#### Heathrow

7. The Inspector's report assumed a continuing trend towards higher numbers of passengers per aircraft, which might eventually justify the construction of a Fifth Terminal to serve the two present runways. The development of feeder services in smaller aircraft seems likely in practice to restrict the average number of passengers per aircraft, with the implication that runway rather than terminal capacity will prove the operative constraint at Heathrow. On this basis the first task is to ensure that the fullest possible use is made of the present runway and terminal facilities; a decision can be taken later on the construction of a Fifth Terminal, if the shape of passenger traffic turns out to warrant this. Meanwhile the ATM limit of 275,000 a year



CONFIDENTIAL

contemplated by Sir John Nott when he gave planning permission for the Fourth Terminal will need to be increased substantially, so that it does not serve as a constraint on the use of the runways. There is likely to be some local political opposition to this, but the lower noise levels on modern aircraft should go some way to allaying this concern. Contrary to the Inspector's recommendation, Mr Ridley does not propose to commit the Government to a ban on night flying.

#### Luton

8. More intensive use of Heathrow, together with the Development at Stansted, should provide the bulk of the required additional capacity for the early 1990s. However, Mr Ridley proposes supplementing the Inspector's recommendations by encouraging the Luton Borough Council to apply for planning permission to increase the annual throughput from 3½ MPPA to 5 MPPA or more. Luton would continue to concentrate on charter rather than scheduled services.

#### Future of Prestwick

9. This is an essentially political question, which illustrates the particular economic constraints under which airports have to operate. A small improvement in traffic would make Prestwick profitable; but there is plenty of spare capacity at Glasgow and Edinburgh, which could easily absorb the traffic which now uses Prestwick. Since the airlines would rather fly to Glasgow and Edinburgh, the normal prescription would be to save the costs of operating Prestwick, and increase profit levels at Glasgow and Edinburgh. However, because international obligations require airport charges to be related to costs (and profits from duty-free etc activities to be applied to reducing charges), all the gains from closing Prestwick would accrue to the airlines and their passengers, rather than to the airport proprietors. Meanwhile closure of Prestwick would

*No Prestwick  
Chall*




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mean the direct loss of about 1,000 jobs there (partly offset by higher employment at Glasgow and Edinburgh), and would put at risk the continued operation of the British Aerospace (BAe) plant there, which is engaged on the Jetstream and would have undertaken part of the work on the RAF Basic Trainer, had BAe secured that contract.

#### Privatisation of BAA

10. The Financial Secretary (in his paper E(A)(85)20) urges that the Government should proceed as quickly as possible with the privatisation of BAA as a whole, which would raise £500 to £600 million. Mr Ridley recommends that each major airport should be turned into a Companies Act Company, and that BAA should be split into two major groups, one incorporating the London airports and the other those in the Scottish Lowlands (there is then a subsidiary question whether Aberdeen should be in the Scottish Lowlands group, as Mr Younger prefers, or whether it should be privatised separately, as Mr Ridley recommends). These steps would clear the way for privatisation, but the decision to privatise need not be taken yet. The principal advantage of privatisation is the substantial cash flow to the Government; as the case of Prestwick illustrates, and as Mr Ridley recognises, the practical advantages of privatisation in terms of the spur it offers to efficiency, economy and profitability apply with much less than their usual force to the case of airports. BAA has a good record in meeting financial targets, and many of the normal benefits of privatisation have already been secured by franchising much of the activity which goes on at BAA airports. The increase in managerial independence following privatisation would be relatively modest; the level of charges would continue to be tightly constrained by international civil aviation obligations, while the Government would inevitably continue to have the last word in major investment decisions.

  
CONFIDENTIAL

Splitting the BAA

11. Mr Ridley considers that the BAA is too large and dominant, and that there would be greater scope for independent and competitive management expertise if it were broken down into its component parts. However, Mr Ridley also recognises that the three London airports have to be operated as a group, with charges set on a coordinated basis and with some central authority to determine which service uses which airport. The same applies to Glasgow Edinburgh and Prestwick. Mr Ridley can only suggest, therefore, that the BAA should be divided into two parts - and this, as Mr Moore points out, leaves the London BAA group still overwhelmingly dominant in terms of total UK civil air traffic. Moreover splitting the BAA would mean that the Scottish group could not be privatised until after the next election, whereas privatisation of BAA as a whole (or of the London group only) would be feasible - following the enactment of the necessary legislation - in the Spring of 1987. No assessment is provided in the papers whether the Net Present Value of the privatisation receipts would be greater if BAA were privatised as a whole or in two parts.

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Airports as Companies Act Companies

12. Mr Ridley's proposal that each airport should be established as a Companies Act Company is intended to provide for equal conditions of competition between airports, and to facilitate the privatisation of airports in municipal hands. Although this step should make it easier to compare the performance of airports, the international constraints on their operation and the need to run the London and Scottish Lowlands airports as groups would appear to reduce the advantages of this. It would undoubtedly be helpful to provide for the attraction of private capital into municipal airports, but where airports are in a position to contribute cash flow towards the maintenance of other municipal services, the effect of imposing a liability to corporation tax (from which local authorities are exempt, but which would apply

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CONFIDENTIAL

automatically once municipal airports had been constituted as Companies Act Companies) would be a further factor to be taken into account in the Government's overall review of local authority finance.

#### Regulatory regime

13. If the Government decide to go ahead with privatisation, new regulatory powers will be needed, to be exercised by the Civil Aviation Authority (CAA) and the Transport Secretary. The Department of Transport's first shot at what would be involved in this is at Annex D to E(A)(85)19. Further work is needed to establish more precisely the form and extent of regulations; but it seems clear that the CAA or some comparable body would need to retain power to ensure airlines' access on equitable terms to the various airports, to control charges consistently with international obligations and with the for airports to be operated efficiently, and to ensure that airport capacity is available where and when needed. Mr Ridley envisages that this last responsibility would be discharged by adjusting permitted levels of charges so as to give airport proprietors the necessary incentives to undertake investments.

#### Content and timing of legislation

14. Depending on the Sub-Committee's decisions, new primary legislation would be envisaged in the 1985-86 Session covering

- (i) control, by Order subject to Parliamentary control, of Air Traffic Movements (ATMs) at each airport (the Bill before the current Session which would achieve this would be withdrawn);
- (ii) privatisation of BAA;





CONFIDENTIAL

(iii) conversion of all major airports into Companies Act Companies; and

(iv) the imposition of a new regulatory regime on airport operations.

In considering the Legislative Programme for the next Session, the Queen's Speeches and Future Legislation Committee (QL) envisaged that a Bill would be needed covering (ii) and (iii) above, but not (i) and (iv). If all these elements are to be covered, including regulation which seems likely to be of considerable complexity, then the business managers and the Parliamentary draftsmen will be facing a very substantial task. QL may therefore need to consider what other legislation might be dropped from next Session's Programme, in order to make room for a very considerably expanded Civil Aviation Bill.

#### Timing of an announcement

15. The Inspector's report was published last December, and a preliminary debate in the House of Commons was held in mid-January. The Government will be under increasing pressure to announce their intentions; and the sooner an announcement is made, the sooner the preparation of the necessary legislation can get under way. Mr Ridley is working towards publication of a White Paper in mid-May, which would cover all aspects of the Government's airport policy - the development of Stansted, privatisation of BAA and establishment of major airports as Companies Act Companies, and the regulatory regime. The formal decision letters arising from the Stansted and Heathrow planning applications would be issued at the same time. The way would then be open for a Parliamentary Debate on the White Paper - on a substantive motion - to be held just before the Whitsun Recess. This is an ambitious timetable, which could only be achieved if the Sub-Committee reaches clear decisions on all the outstanding issues.



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#### HANDLING

16. I suggest that the discussion should be divided into three parts: the Development of Stansted and Heathrow; the Future of Prestwick; and the Privatisation/Regulation issues. (It may be helpful to the other Ministers if you make this clear at the outset.) The Transport Secretary will wish to introduce his paper on airport development in the South East, and the Minister for Housing and Construction (who is in effect jointly responsible for the planning decision) will wish to add his comments, not least in relation to the problems of moving the Perry Oaks Sludge - Works (which are the subject of his separate paper (E(A)(85)22)). The economic case for Mr Ridley's proposals appears to be well established, but a number of other Ministers may wish to comment from a political or regional policy standpoint. On Prestwick, the Transport Secretary and the Secretary of State for Scotland will wish to state their positions, as will the Chief Secretary to the Treasury. On privatisation, the Transport Secretary will again wish to introduce the discussion, and the Financial Secretary to the Treasury will wish to comment. The issues here are all inter-related, but it may be convenient to consider first whether or not to go ahead quickly with the privatisation of BAA; then to consider whether it should be divided into two groups (and whether or not Aberdeen should be included in the Scottish group); then to consider whether each major airport should be transformed into a Companies Act Company; and finally to consider the nature and extent of the regulatory regime required in the event of privatisation. You will also wish to have a discussion of the Parliamentary and legislative implications of the Sub-Committee's decisions.

#### CONCLUSIONS

17. You will wish to record conclusions on the following matters:

- (i) the Development of Stansted. The decision will need to cover the passenger volume to be covered by the



CONFIDENTIAL

planning permission, and the arrangements for control within this limit through statutory controls on ATMs;

(ii) the increase in the previously announced ATM limit at Heathrow, when Terminal Four opens, to a level which will not constrain the use of the runways. The decision will also need to cover what is to be said about the possibility of moving the Perry Oaks Sludge Works;

(iii) the Development of Luton;

(iv) whether or not Prestwick should be closed within the next few years;

(v) whether BAA should be privatised at the earliest opportunity;

(vi) whether BAA should be split into two groups, and whether or not Aberdeen should be retained within the Scottish group;

(vii) whether or not all major airports should be established as Companies Act Companies;

(viii) the regulatory regime required in the event of airports privatisation;

(ix) the content and timing of legislation to give effect to the Sub-Committee's decisions, and its implications for the Government's Legislative Programme in the next Session;

(x) arrangements for the announcement of the Government's policy on airports, and for it to be debated in the House of Commons.

*PLG*  
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Cabinet Office  
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