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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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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

