

Prime Minister: 2.

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We have a meeting on this on

PRIME MINISTER

22 March 1985 Wednesday

but you might like

AIRPORTS POLICY AND PRIVATISATION

to glance at

AIRPORTS POLICY

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the Policy Unit paper + Mr Ridley's minute at the weekend

In considering the Stansted and Heathrow T5 planning applications, Graham Eyre challenged the Government, for once, to stop muddling through and establish a coherent long-term airports policy. At first, Nicholas Ridley was overawed by the alliance of special interest groups, on both sides of the House, arrayed against the measures needed to achieve this. Commendably, he has decided to accept the challenge and build the necessary Parliamentary support.

The economic case he can deploy is compelling. Our commercial aviation business, warts and all, is the envy of Europe, if not the world. Directly and indirectly, it confers great economic advantages. It had been one of the fastest growing sectors of the economy, and continues to have potential for long-term growth. Coupled with this, we are ready to set the pace in liberalising commercial air travel to the advantage of consumers and competitive airlines.

However, sufficient airport capacity in the right place is a sine qua non. There is underlying demand growth, albeit erratic and difficult to forecast. There is no evidence of the demand for air transport reaching saturation. With the advent of new, fuel-efficient, smaller aircraft, there is a

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trend away from Jumbo operations, except for long-haul inter-  
continental flights. Liberalisation is likely to mean lower  
average passenger loads per aircraft, and therefore more  
aircraft needing to be accommodated at airports.

Essentially, you are being asked to endorse Eyre's  
package of proposals, with Heathrow T5 kept on ice pending  
further work and study.

That is a not a cop out. Leave aside the environmental  
factors, the most debatable aspect of airports policy is  
Heathrow T5, not Stansted - we definitely need the runway  
capacity already installed at Stansted. There is a cogent  
← case not to impose the 275,000 ATM limit on Heathrow's two  
runways. But the ultimate capacity of Heathrow for aircraft  
movements is unlikely to be much in excess of 300,000 per  
annum. Increasing Heathrow's passenger handling capacity from  
38 to 53 million passengers per annum (mppa) by constructing  
T5, implies an increase in the average number of passengers  
per flight from about 100 to 180. That increase would be  
inconsistent with the trend towards smaller, efficient, rapid-  
turn-around aircraft for domestic and European flights, and  
likewise, the aim of liberalised air transport. As yet, T5  
must be regarded as not proven. Meanwhile, it would be  
sensible to examine ways of increasing the utilisation of the  
four existing terminals, and to study, but not yet endorse,  
the removal of Perry Oaks sludge works to expand Heathrow to  
the West.

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The two-phased development of Stansted to a capacity of 15 mppa is proposed, subject to Parliamentary endorsement before the implementation of the second phase. A second runway at Stansted is ruled out, but not further expansion to an ultimate capacity of 25 mppa. However, expansion beyond 15 mppa would only be admissible after another major planning inquiry. (Should this be given away now or held as a negotiating card?) Gatwick will remain a one-runway airport, so further expansion is ruled out. The possibility of modest expansion at Luton is a new feature of the package. The Luton Borough Council will be invited to bring forward proposals for increasing the capacity of Luton Airport from 3.5 to 5 mppa. Ultimately, it might even be possible to contemplate expansion to 10 mppa, although there are considerable technical and environmental hurdles to be overcome.

The strong case for encouraging the development of regional airports to satisfy regional demand will be recognised. Manchester International Airport's efforts to attract more international services will be supported. In particular, Manchester will get three additional Singapore Airlines' flights per week, albeit at some cost to BA.

#### AIRPORTS PRIVATISATION

The main point for discussion is not the means but the end.

Nicholas Ridley sees merit in constituting all major airports as plcs on a comparable footing. He wants thereby to expose subsidy and discourage cross-subsidy. The London airports would remain an integrated system held by a BAA plc. The Scottish lowland airports, with or without Aberdeen, would also be integrated under a Scottish holding company. The major local authority airports, set up as freestanding plcs, will be capable of partial or complete privatisation, but not under compulsion from central Government.

So far so good, except that Nicholas Ridley remains unconvinced that the ultimate objective of this restructuring should be privatisation of the BAA airports. He sets out the pros and cons in Annex B of his paper. The pros carry as much weight as in the case of prime privatisation candidates - wider share ownership (including employees), scaling down the public sector, sales proceeds of £500-600 million, and a more stimulating management environment. For all that, he concludes that the "case for retaining BAA's airports in public ownership is strong because of the need to ensure capacity is provided slightly in advance of demand, and because our international obligations on pricing necessitate extensive regulation".

Transport Department hide behind the fear that privatised airports, pursuing purely commercial ends, may not provide sufficient airport capacity in time to yield the full benefits from liberalisation of airline competition. They are wrong. The problem is, after all, not dissimilar from the that of

providing a sensible framework of regulations around a  
privatised BT or BGC.

Summary

a) Airports Policy Nicholas Ridley's proposals deserve support. They do not compromise the objective of a coherent, long-term airports policy.

The discussion should be about the handling of Parliament, press and public, and the associated negotiations. Are the Whips fully in the picture? At this stage, should we go so far as to concede a major planning inquiry before taking Stansted beyond 15 mppa?

b) Airports Privatisation Nicholas Ridley offers the means, but hopes to avoid the end. The White Paper should clearly recognise the objective of privatising the BAA airports and should set the proposed structural changes in that context.

That accepted, you might raise the question of whether or not it is worth breaking down the monolithic BAA of today into London and Scottish components. This, it is claimed, would delay privatisation of the Scottish airports system until at least 1989 (Cf 1987 for the London system). This claim needs to be tested. Assuming it is valid, we would still go for the split on business efficiency grounds. London is, after all, 85% of the whole, so most of the benefits would be achieved in this Parliament.