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PRIME MINISTER

Airports Policy

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You are meeting the Lord Privy Seal, the Secretary of State for Transport, The Minister for Housing and Construction and the Chief Whip on 27 March for a preliminary discussion of the papers attached to Mr Ridley's minute to you of 22 March. Mr Ridley envisages that his papers, on the development of Heathrow and Stansted, on the structure and ownership of airports in Britain, and on airports in lowlands Scotland,* should then be discussed by the Ministerial Sub-Committee on Economic Affairs (E(A)) next week, with a view to the publication of a White Paper on Airports Policy in May or June.

*not circulated for tomorrow's discussion.

BACKGROUND

2. Your preliminary meeting is likely to concentrate on the political and Parliamentary aspects of Mr Ridley's proposals. The provision of additional airport capacity in South East England has been a matter of political controversy for over 20 years, with very strong environmental lobbies resisting almost any proposal to provide for increases in air traffic. With the increasing prevalence of judicial review of administrative decisions, Ministers have faced increasing political and Parliamentary difficulty in making planning decisions stick; and the only powers now available to control the number of airport movements are those vested in the Civil Aviation Authority (CAA) for reasons of safety. The Government had undertaken to enact new legislation to leave the Transport Secretary powers to impose limits on Air Transport Movements (ATMs) at each airport, but a Bill introduced during the current Session which would have achieved this has encountered serious resistance from the Government's supporters.



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3. The future structure and ownership of airports in Britain raises a series of issues which are in most respects separate from those affecting the creation of additional physical airport capacity. The Government's general objective is to liberalise air traffic, and the 1983 Manifesto stated the Government's aim to turn as many airports as possible into private sector companies. If the benefits of air traffic liberalisation are to be secured, sufficient airport capacity must be efficiently provided; but there are difficulties in leaving this entirely to the market, given the constraints imposed by the network of international agreements about air travel and given the Government's inevitable involvement in the planning decisions which are the inescapable pre-condition of any major airport development.

MAIN ISSUES.

4. The main issues before your meeting on 27 March seem likely to be:

(i) Is the case for early development of Stansted made out? Can it be sustained politically?

(ii) Will it be possible for the Government to retain a free hand to go ahead with the development of a fifth terminal at Heathrow, if in a few years time the prospective growth of air travel seems likely to require this?

(iii) Is the procedure proposed for implementation of the Government's policy - Ministerial approval of the Stansted planning application and refusal of that for the Heathrow fifth terminal, followed by legislation giving powers to impose ATM limits - best calculated to minimise the scope for opposition?

(iv) Should the Government pursue early privatisation of the main London and Scottish airports which are currently the responsibility of the British Airports Authority (BAA),



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and, if so, what framework of Government regulation would be required to achieve this?

(v) Should the BAA's operations be divided into two parts, covering London and Scotland respectively, with a view to the separate privatisation of each part, probably on a different time-scale?

The case for the development of Stansted

5. On the basis of the Department of Transport's projections of passenger numbers at airports in the London area, and on the basis of the comparable projections endorsed by the Inspector at the recent public enquiry on the development of Stansted and Heathrow, additional airport capacity will be needed in South East England soon after 1990. The constraint on capacity is the availability of terminals at airports: sufficient runways are available to handle all prospective commercial traffic during the remainder of this century. Failing the installation of a second runway at Gatwick, which the Government ruled out, that airport cannot be developed beyond the presently planned 25 million passengers per annum (MPPA); and it seems sensible to leave Luton - a municipal airport - to concentrate on charter traffic. Additional passenger handling capacity has therefore to be provided at Heathrow or Stansted. Once the fourth terminal at Heathrow is opened, and the presently-intended ATM limit of 275,000 has been lifted, it is uncertain whether there will in practice be sufficient additional runway capacity to warrant the construction of a fifth terminal; and the need to move a major sewage treatment works in order to make room for such a terminal means that it could not be built except in a much longer timescale.

6. Stansted is then left as the only option. The necessary major runway is already available, and much of the necessary transport infrastructure is already in place or



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capable of being provided at a sustainable cost. The essential objection to Stansted has always been the impact it would have on the attractive local environment through urbanisation and the introduction of aircraft noise.

(There is the further point that airlines are likely to be reluctant to use Stansted, given that many of their passengers will wish to take onward flights leaving from Heathrow.) Mr Ridley proposes to try to neutralise local opposition to Stansted, so far as possible, by imposing a relatively low ATM limit initially, and undertaking that this would only be increased with the approval of Parliament, and when justified by the growth of air traffic.

A fifth terminal at Heathrow.

7. Mr Ridley seems to accept that a fifth terminal at Heathrow may well be needed in the longer run, but proposes to suspend judgement on this for the time being. Meanwhile the BAA would be pressed to make the maximum use of the four terminals which will be available by 1990, given the removal of the 275,000 a year ATM limit. In view of the uncertainties about the shape of the future development of air traffic - whether increases in passengers will come mainly from increasing use of wide-bodied aircraft on major routes, which could justify a fifth terminal, or whether it will come about through increasing numbers of feeder services on smaller aircraft, with runway capacity then becoming the effective constraint - it seems sensible to avoid commitment at this stage. There is a risk, however, that Ministers will face demand for commitments which would tie their hands later, when a prospective requirement for further increases in airport capacity had become clearer.

Parliamentary procedure and legislation

8. In the course of the Debate in January, which followed the publication last December of the Inspector's Report, the Government undertook that Parliament would discuss a substantive motion once the Government had taken decisions


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on future airport developments. There is no place, however, for Parliament to participate directly in the decision making process on Stansted; the decision belongs, in a quasi-judicial capacity, to the Secretaries of State for Transport and the Environment, and any review of the decision would be judicial rather than Parliamentary. Given the strength of the opposition to Stansted, there must be a high risk that a decision in favour of development will be challenged in the Courts, on the grounds that the responsible Ministers have acted unreasonably; and anything said in the course of a Parliamentary Debate about airport development, following publication of the decision to approve development at Stansted, would be open to questioning in the context of the litigation. Further uncertainty would be created if Parliament were to endorse any motion inconsistent with the decision on Stansted. The Chief Whip and the Lord Privy Seal will need to give their assessment of the prospective Parliamentary response to Mr Ridley's proposals; environmental opponents of Stansted have hitherto made common cause with MPs from North of England constituencies who see the diversion of traffic from London to regional airports as a desirable form of economic development. Mr Ridley proposed some expansion of services and facilities at Manchester (at some cost in terms of the proceeds from the privatisation of British Airways) - but it must be questionable whether this will be enough to satisfy this group of the Government's critics. Meanwhile the inescapable fact remains that the demand is for the use of airports in the South East, rather than those in the North or even in Scotland, and that it would be absolutely inconsistent with the Government's general approach to the liberalisation of air travel to seek to frustrate or divert that demand.

Privatisation and Government regulation of airports

9. You will want to leave substantive discussion of Mr Ridley's proposals to E(A). You may, however, like to give some preliminary consideration to the political attractions of the proposals put forward by Mr Ridley, and how far they meet the criticisms he makes (in paragraph 4 of the paper about structure and

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ownership of airports in Britain) of the current situation. His approach is that all major airports, including those owned by local authorities, should be turned into Companies Act companies, with the BAA airports divided into "London" and "Scottish" groups, each of which would be a single limited company. Because of international obligations, and the position of major airports as natural monopolies, Mr Ridley envisages that airports would be subject to a new framework of statutory regulation, which would remove much of their freedom over pricing and investment decisions. Mr Ridley makes clear that his preferred course is to clear the way, in his proposed legislation for the next Parliamentary Session, for eventual privatisation, but to make no immediate commitment to go ahead with this - he seems himself in some doubt whether privatisation would be justified, given the possible divergence between the interests of airport proprietors in maximising their profits, and of the Government and air travellers in ensuring that airport facilities are used to the maximum so as to provide whatever airport capacity is required at minimum cost. (Mr Ridley particularly notes that the question of the fifth terminal at Heathrow would be easier to handle if the London airports were still in the public sector.)

The form of airport privatisation

10. Here again the main discussion will be for E(A). However, you may wish for some preliminary discussion of the case for operating the London and three Scottish airports as groups, rather than as separate and competing companies; and you may also want to reflect on the desirability of insisting that all local authority airports should be turned into Companies Act companies, given that the local authority owners of profitable airports would then be faced, for the first time, with a liability to corporation tax which would represent a new drain on their cash flow.

Legislation

11. Mr Ridley proposes new legislation in the next Session, in substitution for the Bill before the current Session which would be

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withdrawn. This would cover the transformation of major airports into Companies Act companies, arrangements for the privatisation of the BAA airports, and the new framework of Government regulations of airports, including the control of ATM limits. Depending on the Parliamentary situation, it might be worth considering whether the problems of judicial review of Ministerial decisions could be reduced by using the opportunity of the legislation to substitute statutory airport development controls for the present operation of the planning laws. This would, however, have the disadvantage of increasing the amount of front exposed by the Government while the Bill was before Parliament.

HANDLING

12. The main purpose of the meeting will be to secure the best assessment the Lord Privy Seal and the Chief Whip can provide of the probable Parliamentary response to Mr Ridley's airport development proposals. You will also wish to review the political background to Mr Ridley's other proposals on legislation, privatisation and a new system of Government regulation.

CONCLUSIONS

13. You will wish to reach conclusions on:

- i. the adequacy of the Government's case for the development of Stansted;
- ii. the presentation and Parliamentary handling of the Government's decisions on airport development;
- iii. the timing and extent of legislation on airports policy; and
- iv. whether, in the light of your discussion, Mr Ridley's papers are in a form which provides a suitable basis for an early discussion in E(A).


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