

MR TURNBULL

c Mr Redwood

AIRPORTS POLICY  
MOVEMENTS AT HEATHROW - AND PRIVATISATION

The two issues which E(DL) will take on 10 April are closely related. Heathrow handles some 45% of all UK air passenger movements and 75% of UK air freight tonnage. Any ceiling imposed on Heathrow's capacity has direct effects on other airports.

Only Government can prescribe environmental, safety and competition rules. For as far ahead as the eye can see, and regardless of airport ownership, Government will not be able to detach itself from its inherited regulatory role. Mr Ridley's two papers recognise that fully.

1. Air traffic movements (ATMs) at Heathrow

There is no room for manoeuvre here. The promise made in 1979 of a limit of 275,000 ATMs per year was unequivocal, and it did take account of the quieter aircraft which must come into service by 1985/6. Mr Ridley also accepts that the limit will not undermine the viability of Terminal 4. He has no option but to seek powers to enforce a limit. He is also right to believe that half-hearted powers will not work; and therefore to seek the extensive powers proposed in his paragraph 7.

We fully support Mr Ridley's recommendation to E(DL).

2. Airports Privatisation

On this topic, Mr Ridley's paper is much less satisfactory. It is conspicuously short of fact and leaves large questions unasked. In an Annex we have set out some essential facts. These give rise to six main questions below. In the absence of any need to rush decisions, we urge the Prime Minister to resist accepting even preliminary conclusions until Department of Transport answers the questions.

*We ought to say this clearly to Mr Ridley*



In two respects we fully support Mr Ridley:

We agree with his proposal to take powers requiring local authorities to turn airports above a certain size into PLCs. Financial transparency is important. But the minimum size would be better expressed in non-financial terms and should be set lower - say at 100,000 passenger movements per annum.

We agree that the CAA should be instructed to dispose of its seven small Scottish airports.

We do not agree with the muddled thinking which besets his other tentative proposals. *in particular paras 8-11*

It is true that the operation of BAA's airports is already heavily franchised out and that large airports constitute local monopolies. It follows that there is not much further scope for competition or private sector disciplines. But neither would these virtues be eroded if BAA were privatised - because of the extensive safeguards in the regulatory role which Government has to keep. Mr Ridley's paper overlooks completely the value to the Exchequer of privatising BAA. In March 1983, its net asset value was nearly £1 billion.

Question 1: What is E(DL)'s view of the Exchequer benefit of privatising BAA?

Although it is not proven that the privatisation of BAA as a whole is economically disadvantageous, it may be politically difficult. So:

Question 2: Why not bring forward proposals to counter the dominance of a private sector Heathrow in the South-East? A grouping of Gatwick, Stansted and eventually Luton could be useful, especially as movements at Heathrow are to be limited.

Question 3: Why not prepare plans now for the serious over-capacity problem at Prestwick/Glasgow/Edinburgh?



Question 4: What more can be done to bring the marginal or unprofitable local authority airports into the black?

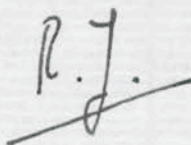
What can we learn from the 13 municipal airports which are operated by the private sector? Can more be done to encourage the development of airport land? Some airports derive an income from an adjoining industrial estate.

Question 5: What plans should be prepared for Liverpool?

It is far and away the worst of the local authority airports in commercial terms, with losses nearly as great as its turnover.

Question 6: Do the privately-owned and company-owned airfields pay their way and if so what can we learn from them?

This is a liberalising, deregulating, non-subsidising Government which is properly disposed to the view that commercial activity belongs to the private sector unless there are compelling reasons to the contrary. Why should airports be different?



ROBERT YOUNG



AIRPORTS OWNERSHIP

The British Airports Authority (BAA) owns seven airports - three in South-East England (Heathrow, Gatwick and Stansted) and four in Scotland (Glasgow, Edinburgh, Prestwick and Aberdeen).

The Civil Aviation Authority (CAA) owns seven small Scottish airports - an accident of history.

Local Authorities own 50 airports, ranging from the "semi-international" (Manchester, Luton, Birmingham), to the very small (eg Haverford West, Dornoch, Sunderland). Interestingly, 13 of the 50 are municipally owned but privately operated.

In addition, there are 39 MOD airfields and 9 British Aerospace airfields available to civil traffic. And there are no fewer than 149 privately owned and operated airfields and airstrips.

AIRPORT CAPACITY

There is not only no shortage of airport capacity in the UK - there is a huge surplus. Even the apparent shortage of capacity at Heathrow is an artificial phenomenon derived from the Government's 1979 promise to limit movements there. Physical capacity has not yet been reached, and Terminal 4 will increase it.

In two areas, over-capacity at large airports is already acute, and will have to be tackled irrespective of ownership. The first is in the North-West, where Manchester airport is a huge success and Liverpool a disaster (both are local authority owned). The second is Southern Scotland, which cannot support major airports at Prestwick and Glasgow and Edinburgh (these are all owned by BAA).

The South-East may become such a problem. Heathrow, Gatwick and Luton all attract more than enough traffic to cover their costs, but Stansted does not. Much will depend on the effect of limiting ATMs at Heathrow, and on the outcome of the enquiry concerning Stansted.



CONFIDENTIAL

AIRPORT PROFITABILITY

The profitability of airports is highly variable.

Within BAA, Heathrow is hugely profitable (£46 million gross on turnover of £191 million). Gatwick makes a modest profit, and Stansted loses £4 million on its turnover of £2.3 million (!). Glasgow and Aberdeen earn profits, Edinburgh loses, and Prestwick loses heavily.

Among the local authority airports, seven of the nine largest are profitable, but there are anomalies. Bristol, for instance, makes a profit on 261,000 passengers per year, yet Liverpool loses £2.6 million on 251,000. Teeside loses nearly £300,000 on roughly the same numbers.

We have no knowledge of the profitability or otherwise of the very small private airfields.

What we can say is that profitability is not related to type of ownership, nor directly to size. However, what emerges from the BAA accounts is that airport profitability derives exclusively from non-traffic activity. BAA lost nearly £25 million on traffic income of £153 million in 1982/3, but made £63 million on £131 million of income from commercial concessions, rents and services. It is entirely valid to regard airport management as property and retail management at least as much as air traffic management.

R.J.

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~~of~~ B/E File



10 DOWNING STREET

Prime Minister ①

Agree I should be Policy Unit note to be Chancellor as Chairman of E(DC)?

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Yes - but

AT

6/4

I really think that the Policy Unit should have a word with

Nick Ridley's office. Jim. Otherwise he is bound to get resentful if these points are made without notice.

mt



CC 210



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

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NBPM  
AT 16/5

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

15 May 1984

Dear Nigel

ADMINISTRATION OF THE LIMIT ON AIR TRANSPORT MOVEMENTS AT HEATHROW

I am responding in this letter to the points made in the E(DL) discussion (E(DL)(84)1st) on my memorandum seeking agreement to legislative powers to implement the environmental limit on air transport movements at Heathrow, which we are committed to introducing when the fourth terminal opens at the airport towards the end of next year.

I attach a consultation paper, setting out preliminary views on how that limit might be implemented. I would like to issue it shortly. In doing so, I would stress that this is a consultation document and that Ministers have not reached decisions on any of the options set out in the paper.

In implementing the Government's commitment I will be seeking, at the outset and subsequently, to balance the interests of air travellers and those who live near Heathrow who suffer noise disturbance. Since the time of the Inquiry into the fourth terminal the noise climate around Heathrow has, as was then expected, improved considerably with the introduction of quieter aircraft. At the Inquiry the Inspector said that the limit should be subject to review, but as average passenger loads increased and as older noisier aircraft were phased out, the limit should be lowered so that further reductions in total noise should be enjoyed by those living near the airport. The then Secretaries of State for Trade and for the Environment, in their decision letter, drew attention to the need to make effective use of the airport, and opened up the possibility of subsequently relaxing the limit as noisier aircraft were replaced by quieter ones. As I explained to E(DL), I will be seeking to devise a system which would permit some flexibility in later decisions about the limit by relating it to the overall level of noise actually generated.



It might be possible, as quieter aircraft continue to be introduced, to allow the number of movements to rise somewhat while not increasing the noise disturbance to those living near the airport. However, at this stage, I should not discuss this, let alone reach any decisions until the report on the Stansted/Heathrow Terminal 5 Inquiry has been decided.

I was asked by E(DL) to consider further whether it was right that the weight of any measures to limit demand should fall more heavily on domestic than on international services. The starting point is that the recent growth in domestic services has added considerably to the number of movements at Heathrow, but has decreased average passenger loads, thus making it more difficult to make optimum use of the airport.

My objective for domestic services is to encourage end to end passengers, who are not interlining at Heathrow to or from foreign destinations, increasingly to use the other London airports. These passengers will be far less inconvenienced if they have to fly via Gatwick than will UK businessmen and others who necessarily have to interline at Heathrow for foreign destinations. (The improved rail service which has just been introduced has cut the Victoria - Gatwick journey to half an hour, with trains every 15 minutes; and from Summer 1985, when the M25 connects Gatwick fully to Heathrow by motorway, Gatwick's links with the West and North West of London will be very good.) My further aim will be to retain the competition which has recently been introduced in domestic services to Heathrow, even if there must be a limitation on the number of services.

I recognise that these proposals are a little unpalatable and, in the light of the E(DL) discussion, have made them rather more tentative in the consultation paper. And I have in particular emphasised that the suggestion that domestic end to end passengers should pay a special supplementary charge (a 'poll charge') for using Heathrow has been put forward to stimulate discussion as one possible contribution to dealing with an unavoidable problem.

I intend that the powers in the Bill will be flexible enough to permit changes in the number of movements, when we come to consider a future review; and they will not prejudice future decisions on how any environmental constraint should be implemented.

I should be grateful for the Committee's agreement, by Friday 18 May, to my issuing the attached consultation paper setting out preliminary views on how the limit on air transport movements should be implemented.

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

*Tom*

NICHOLAS RIDLEY *Nicholas*

2F



## Draft Ministerial Introduction to ATM Consultation Document

The Government is committed to introducing a limit on the number of air transport movements at Heathrow when the fourth terminal opens at the airport towards the end of next year. The attached consultation paper prepared by my Department sets out some preliminary views on how that limit should be implemented. In advance of consultation, Ministers have reached no firm conclusions on the options that have been suggested. Our aim in implementing the commitment to limit disturbance from aircraft noise will be to achieve a sensible balance between all the interests involved as well as to make effective use of Heathrow which is an important national asset.

2 There will be more aircraft wanting to use Heathrow than can be allowed to do so under the limit. The airlines may themselves be able to help in reducing the scale of the problem. For example, they may be able to introduce larger aircraft sooner, or vary their operations to improve load factors, or transfer some of their services to other London airports. Such self-help might make the problem more manageable than is suggested in the paper. I am concerned that regulatory intervention to achieve the environmental constraint should be kept to a minimum, so as to interfere as little as possible with commercial airline operations. This is one of the reasons why the consultation paper has been issued some time before the restraint is due to come into force.

3 But something more than self help does seem likely to be



necessary to keep demand within the environmental constraint. This is certainly the view suggested in the paper. There is a need therefore to consider what measures might be adopted. The pros and cons of various restrictions on international and domestic services are discussed.

4 The paper suggests that the greater part of any restrictions should fall on domestic services, with the aim of shifting from Heathrow those passengers whose journey is simply to and from London. The argument is that these passengers would be less inconvenienced than others if they travelled via another London airport. Not everyone yet realises that rail access to Gatwick has been considerably improved, with a fast service every 15 minutes taking half an hour, and that the M.25 links from Gatwick towards the West and North West will be completed not long after the constraint is introduced.

5 The pricing mechanism might also be used to create some incentive for domestic "end to end" passengers to use the other London airports. Two tentative possibilities are aired in the paper. One is that slots for domestic flights should be auctioned to the highest airline bidder. Another is that passengers to and from Heathrow who are not interlining with other flights should pay a special supplementary charge, known as a 'poll charge'. Such travellers would have the alternative of making their journey via the other London airports without such a charge. Either way would mean increased charges, and I recognise that that would not be popular. I would welcome views on whether it would be preferable to regulatory intervention which might reduce passenger choice.



6 I would stress that the Government have reached no conclusions on any of the options in the paper. The Government will consider fully all the views expressed before taking any decisions.



## HEATHROW AIR TRANSPORT MOVEMENT LIMIT

### Noise around Heathrow, and the purpose of the movement limit

1. Heathrow is surrounded by densely populated areas which are subjected to the noise created by aircraft using the airport. While there has been some improvement in the noise climate as quieter aircraft have replaced older noisier types, there are still about a million people who experience some disturbance from aircraft noise.
2. The effects of noise on the surrounding communities were considered in great detail at the Public Inquiry into the planning application to build a fourth terminal at the airport. In his report the planning Inspector recognised that additional airport passenger capacity was necessary but considered that everything should be done to minimise the effect that this would have on the expected improvement in the noise climate. To that end he recommended that the number of air transport movements (ATMs)\* at Heathrow should be restricted. The Government accepted that there should be a limit and in its decision approving the development of Terminal 4 prescribed a limit of 275,000 ATMs, close to what was then estimated to be the capacity of the runways. The announcement of the limit, which was to come into effect from the opening of Terminal 4, mentioned that it would be reviewed in the light of progress on the prohibition of noisier aircraft and the introduction of quieter aircraft. This paper considers how that commitment is to be implemented; any measures which are brought into effect at the outset will not preclude any subsequent changes.

### Traffic levels since the Terminal 4 Inquiry

3. At the time the Inspector made his recommendations in 1979, ATMs at Heathrow were just below 270,000. After rising to over 280,000 in 1979/80, the number fell sharply in the following two years as a result of the recession. In the last two years, however, activity has picked up again and the introduction of new services on domestic routes has contributed significantly to the growth in ATMs:-

#### AIR TRANSPORT MOVEMENTS AT HEATHROW

	Total	Domestic	International
1978/79	269,872	59,920	209,952
1979/80	280,690	64,855	215,835
1980/81	266,822	62,584	204,238
1981/82	245,789	57,766	188,023
1982/83	252,836	64,898	187,938
1983/84	263,313	74,198	189,115
Planned November 1983/ October 1984	277,500	76,800	200,700

Operations planned by the airlines in the current year are thus likely to exceed the level of the limit and demand for "slots", ie times for take-off or landing, is expected to continue to increase until the early 1990s when on present assumptions about patterns of traffic and aircraft size it could exceed the limit by some 35,000 movements. There are, therefore, two problems to be solved: first, how should the demand for ATMs be reduced to within the environmental constraint; second, once that has been achieved, what measures should be employed to ensure

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\* Scheduled and charter service movements (including helicopters) transporting passengers or cargo, but not positioning flights, air taxi and general aviation movements.



that the constraint is not subsequently exceeded. The Department favours a flexible approach which encourages maximum self-help by airlines and keeps Government intervention to the minimum necessary to ensure that demand remains within the constraint.

#### Existing machinery for dealing with congestion at peak times

4. At Heathrow, as at other major airports, a Scheduling Committee, composed of the airlines using the airport, allocates slots at particular times of the day. The Heathrow Scheduling Committee relies on the voluntary cooperation of the airlines to achieve a match between the slots sought by airlines and the handling capacity of the runways and terminals. The Scheduling Committee allocates slots twice a year covering the periods from April to October and November to March. Scheduling slots at Heathrow has to be coordinated with the scheduling of slots at other airports, and this is achieved at planning conferences organised under the auspices of the International Air Transport Association (IATA) in which all airlines, whether members of that Association or not, may participate.

5. The Scheduling Committee has generally worked well on the basis of give and take between its member airlines, and the Government is keen that it should continue to play a central role in allocating slots within the environmental constraint. However, the Scheduling Committee has until now had to cope only with the problem of excess demand at peak periods. If an airline could not operate at the time it preferred, there has always been the possibility of a slot at some other time of the day. The Scheduling Committee has not had to deal with a situation where it had to refuse an airline a slot altogether. There must be some doubt about whether the Scheduling Committee could operate successfully and avoid deadlocks once the demand for slots exceeds the number available. It seems likely therefore that measures will have to be taken to limit demand for access to Heathrow, and to reinforce the Scheduling Committee in its task by defining principles for the allocation of slots. While in the apportionment of a benefit which is limited in total size, it is not possible to provide everyone with exactly what they want, airlines, including those newly licensed, must be satisfied that they are being fairly treated in comparison with their competitors. Some moderation of the strict application of the IATA "grandfather rights" principle, whereby priority is given to an airline previously occupying a particular time slot, is likely to be needed to achieve this.

6. It is for consideration over what period of the year the number of ATMs should be counted. It seems sensible that this should be related to the IATA scheduling seasons which begin and end with British Summer Time. The Department's favoured option is to start the first full year at the appropriate date in March 1986, at the start of the summer season. It believes airlines would find this helpful since any reduction in operations found necessary would then occur in the winter season, when it may be somewhat easier to arrange. But the Department would welcome views on this. An interim arrangement could be established for the period between the opening of the terminal (possibly in October 1985) and the start of the summer season.

#### Legal powers

7. While the Government has, in Section 78(3) of the Civil Aviation Act 1982, powers which would enable it to impose an overall limit, these would not be adequate for implementing it in practice. The Government therefore proposes to seek additional statutory powers to enable it to give effect to any or all of the measures discussed in this paper. An outline of the powers that it proposes to seek is at Annex A. The powers would be available for use at other airports if they should be needed to deal with problems of restricted capacity, though there is no present likelihood of this nor intention of using them elsewhere than at Heathrow.



### The proposed approach

8. In considering the approach that should be adopted the Department has had regard to the following objectives, in no particular order:-

- a. the facilities of Heathrow (runways, terminals, parking areas and other infrastructure) should be used as effectively as possible;
- b. as much freedom as possible should be left to the preferences of passengers and the commercial judgement of the airlines, and regulatory intervention should be kept to a minimum;
- c. compatibility with the CAA's statutory objectives;
- d. consistency with the UK's international obligations;
- e. compatibility with the Government's desire to encourage competition in the provision of domestic services; and
- f. Heathrow's importance as an international "hub" airport should be maintained by minimising the restriction on interlining opportunities; and insofar as intervention is required, the range of services available at Gatwick should be increased, so that it can develop similarly as an international hub.

In practice some compromise has to be sought between these objectives.

### Existing limitations on services

9. Since 1978 restrictions have been placed on the use of Heathrow designed to reduce congestion at the airport and to encourage certain categories of traffic to use other London area airports. New operators are banned from starting scheduled international services from the airport and whole aircraft passenger charters are not allowed, with the exception of Concorde, VIP flights and more recently ad hoc charters. (The last relaxation will lapse when the fourth terminal is opened.) It is clear that these restrictions will need to be maintained and, given the trend in demand, further measures will also be needed to observe the environmental constraint.

### Approaches to the limitation of future demand for slots at Heathrow

10. The Department has considered a number of ways in which demand might be limited:-

- i. pricing mechanisms;
- ii. the exclusion of certain categories of traffic or services;
- iii. the sub-division of the limit into quotas for international and domestic services.

### Pricing mechanisms: general

11. In many situations the best way of allocating a scarce resource is by a mechanism which makes it available to those for whom it has the highest value, ie by some form of pricing. The BAA have already made some changes in their charging structure, to reflect the costs of providing facilities, which increase Heathrow charges for domestic services, particularly those using smaller aircraft. That means in relative terms the price of using Heathrow will increase to these operators, and that may have some effect in moderating demand in this sector, which has been among the fastest growing in terms of air transport movements.



However, airport user charges form a relatively small part of the total costs of an airline, and past experience has shown that there is very little price elasticity of demand. In the Department's judgement the level of charges would have to be more than doubled to make any significant impact on overall demand, even assuming that the present restrictions on the use of Heathrow were maintained. Such general increases could not be squared with our international obligations. The Department does not consider therefore that pricing is something that can be used in isolation to deal with the problem of excess demand, though it may nonetheless have a role in relation to domestic services (see below).

### Exclusion

12. The exclusion of specific categories of traffic, such as all-cargo services or small aircraft below a certain seating capacity, has been considered. All-cargo services have declined in recent years as more and more cargo is carried in the holds of passenger aircraft. A ban on all-cargo services would seriously affect those airlines whose services were integrated with their passenger operations. It would also waste excellent cargo facilities which have been provided at the airport at considerable cost. The exclusion of small aircraft would help to maximise the use of the airport's facilities but would not help with the balanced build-up of traffic at Gatwick.

13. An alternative to excluding categories of traffic is the exclusion of services to particular destinations. The most suitable routes for transfer would be those which would minimise the loss to other Western European airports of interlining passengers. It seems sensible to consider transferring those services with a low interlining content and which therefore carry a high proportion of passengers who, unless their destination or point of departure is close to Heathrow, generally have no strong reason for using it rather than another London airport. Where routes were served both by British Airways and by a foreign carrier both services would be transferred so that one did not gain a commercial advantage from the move at the expense of the other. Transfer of the main geographical groups of international services with an average of less than 10 interlining passengers per flight would save about 4,000 ATMs per annum. A further 8,000 ATMs might be saved by the transfer of services to particular holiday destinations which also tend to have a low interlining content. Domestic services with relatively few interliners account for some 10,000 ATMs.

14. Another option would be to impose a limit on the frequency of services on individual routes. On the most popular routes, which have a large number of daily flights (eg those with more than 4 services a day per carrier in each direction), expansion of demand can be met by increasing aircraft size or by mounting additional flights. Airlines would be permitted to do the former but if they wished to add extra flights to their schedule, they would have to operate them from another airport. This would inhibit growth in movements on these routes but not actually reduce them. As many as 5,000 movements could be saved, however, in the longer term. In order to reduce the demand to within the environmental constraint a cut-back in the present level of services would be needed. There would be considerable savings immediately from a cut-back in such services. The Department has estimated that if frequencies were limited to 5 services a day per carrier, international ATMs would be reduced by 5,000 a year and domestic ATMs by 10-15,000. In this way Heathrow's interlining opportunities would be preserved while other London airports would stand to gain services to some of the most important domestic and European destinations.

15. The foregoing measures could apply to both international and domestic services. To what extent should they be concentrated on one or the other? On international routes the basic pattern of services is established and has already been constrained: it has for some time been Government policy that no new international carriers should be allowed to operate services into Heathrow. A main



aim of further measures on international services should perhaps be to encourage airlines, voluntarily or through 'capping' measures, to increase aircraft size or to expand their services at Gatwick.

16. On domestic routes the pattern of services is still evolving. The encouragement of greater competition on domestic services has brought benefits to the passenger in quality and choice of service. But it has also added to frequencies at Heathrow and decreased average passenger loads. It has been suggested that domestic services should therefore be limited proportionately more than international services. But any such measures should, as far as possible, retain the benefits of competition at Heathrow.

17. About 70 per cent of domestic passengers using Heathrow are simply travelling to and from London and the South East. If these passengers did not use Heathrow (but instead flew via Gatwick), they would be relatively less inconvenienced than those who use Heathrow because they need to interline there for foreign destinations. It could be argued therefore that the broad aim of measures on domestic services should be to encourage domestic end-to-end passengers to use the other London airports. Road and rail improvements are in any case making these airports more accessible. The rail link to Gatwick has been considerably improved. The journey time is about 30 minutes from Victoria with a service every 15 minutes. The M25, south western and western sections, which will be completed by the summer of 1985 will make Gatwick more accessible to many parts of London.

#### Domestic Pricing

18. The pricing mechanism might be used to deter excess demand on domestic services. Prices necessary to ration demand may be somewhat lower than for international services - since many distances, and thus fares, are lower. But they might still be more than double the present level of charges for domestic services. A major limitation is that domestic airlines with international services could choose not to pass higher charges fully through to domestic fares.

19. To avoid this last difficulty, one possibility, which is put forward principally to stimulate discussion, would be to require terminating passengers on domestic services to pay a special supplementary charge for using Heathrow. Interlining passengers would not be liable to such a charge. A note on the implications of such a 'poll charge' is attached at Annex B. A poll charge would have to be set at a fairly high level if it was to discourage travellers from using Heathrow. The charge could be collected either at the time of booking the ticket or, as if it were an airport tax, during the check-in process. The revenue would accrue to the airport authority, to be used for the benefit of other airport users, possibly by reducing charges on domestic services at the other London airports to provide an additional incentive to use them.

20. The measures described in the above paragraphs would not guarantee an exact matching of supply and demand. The Department would prefer to leave to the airlines through the Scheduling Committee any 'fine-tuning' that might be needed to reduce any small excesses in demand - at least until further measures became unavoidable.

21. To avoid the need for a fundamental review whenever this occurred, it has been suggested that there might be a separate sub-quota on domestic services. This suggestion reflects the belief that, following whatever initial measures are adopted, subsequent action to reduce demand should be directed principally towards domestic services, so as to minimise the effect on Heathrow's status as the pre-eminent international airport in the world. The level of the sub-quota would mirror the desired balance between domestic and international ATMs. The CAA would be responsible for varying the licences of domestic operators to ensure that



demand remained within the sub-quota. The quota could be set at a figure that allowed for some growth in international movements. Until that growth had occurred the CAA should be able to grant limited period licences for domestic services above the level of the sub-quota. If growth of demand for slots for international services, despite other measures (like frequency restrictions) to limit it, exercised excessive pressure on the domestic quota there would clearly need to be a fresh review.

22. The Department would welcome views on the merits of having a formalised sub-quota and if so whether, and to what extent, it should reflect a bias in policy in favour of international ATMs.

#### Domestic slot auctioning

23. Slots within a domestic quota could be apportioned not by some method of allocation but by auctioning them to the highest bidder. It would be possible under this approach to auction either particular time slots or simply the entitlement to a slot, the timing of which could then be sorted out through the existing scheduling arrangements. Although this would represent an efficient mechanism in economic terms, in practice it would tend to reduce the competition which the Government has been trying to foster, since airlines with ample financial resources would be able to secure the prime slots to the detriment of the small airlines. Nevertheless, slot auctioning must remain as a possibility for regulating demand. It is envisaged that under this option airlines would subsequently trade slots (or Heathrow frequencies) among themselves.

#### Preliminary views of the Department

24. It will be apparent from the discussion in the paper that the Department considers that a combination of measures will probably be needed to limit access to Heathrow. In principle it:-

- a. favours the maximum use of market mechanisms rather than regulatory intervention, but recognises that some regulatory intervention will be necessary;
- b. considers that as regards international services, and perhaps also for domestic services, "capping" or a cutback of frequencies is to be preferred to involuntary transfer of services;
- c. considers that domestic services may need to be limited proportionately more than international services, and sees arguments for encouraging domestic terminating passengers to use other London airports.

#### Comments

25. The Department would welcome comments:-

- a. generally on the issues raised by this consultation paper;
- b. on the measures that should be taken when the limit comes into force to eliminate the excess demand then expected (which could be as much as 10,000 ATMs);
- c. on the measures that should be taken thereafter to limit demand;
- d. the period over which movements should be counted.



Procedure

26. Comments are sought by [29 June]. These should be addressed to Mr N McInnes, Civil Aviation Policy Directorate, Department of Transport, Room S7/10, 2 Marsham Street, London SW1P 3EB. Comments will be made available to the CAA unless respondents specifically request otherwise.



## ANNEX A: ADDITIONAL LEGAL POWERS

1. The Secretary of State should have power, at his discretion, to specify limits on the use of an airport by:-

- i. individual airlines;
- ii. categories of, or particular, services;
- iii. categories of aircraft;
- iv. categories of traffic;

in order to ensure efficient use of capacity at that airport. He will therefore be able, for example, to impose a limit on the total number of domestic/international route movements or to cap services to any particular destination.

2. BAA will be placed under a statutory duty not to allow the limits set by the Secretary of State to be exceeded. The Scheduling Committee will continue to allocate slots within the limits, but it may be necessary to provide the BAA with additional powers to enable it, if necessary, to enforce decisions on allocations.

3. The Secretary of State should be entitled to direct the CAA as to its air transport licensing functions with a view to ensuring the maintenance of the limits. The CAA should have sufficient power to enable it to exercise its licensing functions, without a direction, in a manner calculated to facilitate the observance of the limits.

4. Additional powers may be necessary in order to enable BAA to ration demand for the use of an airport through pricing. The BAA should be able to exact any non-cost related charge where justified in order to facilitate the discharge of its duty to implement the limits. The Secretary of State should have power to require the BAA to prepare and implement a scheme for levying charges, or selling the right to use the airport, applicable in relation to any specified category of services, which in the Secretary of State's opinion reflects the scarcity value of the use of an airport. In relation to foreign airlines on international routes HMG is circumscribed by its international obligations and the Secretary of State may need to have a power of direction to ensure that the BAA takes into account such international considerations.

5. Legislative provision would be required to establish a poll charge.

6. There are still a number of difficult legal issues which need to be resolved in relation to the concept of "slot auctions", one of which is how to create a sufficient property right in the right of access to enable subsequent trading of that right between airlines without derogating from the BAA's rights.



## ANNEX B: USE OF A "POLL CHARGE" FOR DOMESTIC PASSENGERS

1. A poll charge could be levied directly on domestic terminating passengers to deter them from using Heathrow and to encourage them instead to use Gatwick and Stansted. The application of the charge would be limited to passengers arriving at or departing from Heathrow on domestic services who were not interlining with an international flight. Interlining passengers in this context could be defined as those domestic passengers who have identifiably arrived by, or are travelling onward by, an international service within a defined period from their domestic arrival or departure at Heathrow.

### Method of levying the charge

2. A poll charge could be collected in one of two ways: it could be collected by the airline/travel agent at the time a ticket is sold as a surcharge on the price of a ticket or it could be collected, as if it were an airport tax, on departure during the check-in process either at the check-in desk itself by the airline or separately by the airport authority.

3. An important consideration is that the charge should be perceptible to the passenger: he should recognise that he is paying an extra amount for using a Heathrow service. The effectiveness of the charge would clearly be diluted if airlines were able to average it out among all their passengers (as peak landing charges are currently spread out).

4. The problem with collecting the charge at the time the ticket is sold is that the charge is likely to become absorbed within the overall ticket price and not be separately identifiable. The alternative of levying the charge during the check-in process would have the advantage of making it readily apparent to the traveller but it would increase the time it took to process passengers, the number of staff needed to cope with them and the congestion at Heathrow and other airports.

### Means of distinguishing interlining passengers

5. The only practical way of distinguishing between interlining and end-to-end passengers would be on the basis of whether or not they had a through ticket for an inbound or outbound flight to another destination. The "Shuttle" passenger would have to show that he had a ticket for a flight to or from another destination within say 12 hours of the "Shuttle" flight. Those passengers who had proof that they were interlining through Heathrow would be given a ticket exempting them from the charge. It would not be practicable to charge all passengers through their ticket and then refund those who actually interlined, even though the number of transactions would be much lower.

### Policing

6. The operation of the system and the categorisation of chargeable and exempt passengers would rely to a large extent on the domestic airlines. This would be backed up by periodic spot checks. Consideration would have to be given to what sanctions might be needed.

### Size of Poll charge

7. A poll charge would have to be set at a high level if it was to discourage travellers from using Heathrow. It seems likely that something in the region of £15 at least would be required. This represents a surcharge of about a third on an average domestic single fare. The poll charge needs to be high in relation to the fares on the longer domestic routes which carry the highest proportion of passengers who are not interlining. On the shorter domestic routes, many more travellers will be exempt from the charge.



Destination of proceeds

8. The revenue raised by the poll charge should preferably go to the BAA to enable the Authority to apply the proceeds to the benefit of other airport users. It is for consideration whether the proceeds should be used primarily to reduce charges for domestic services at the other London airports to provide a parallel incentive to use them.



16 MAY 1994



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