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DEPARTMENT OF TRANSPORT
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My ref: R/PSO/400/86
Your ref:

MINISTER FOR AVIATION

22 January 1986

Michael Howard QC MP
Department of Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

NSM

TO MR ALLEN
FOR ADVICE AND
LAST REPLY IF
APPROPRIATE
PLEASE BY:

Copies to
PS/SSS
PS/SSR S.H.
M. JENNER
M. TAYLOR
M. WOOLMAN
M. BARK

3111

Dear Michael

at 11.15

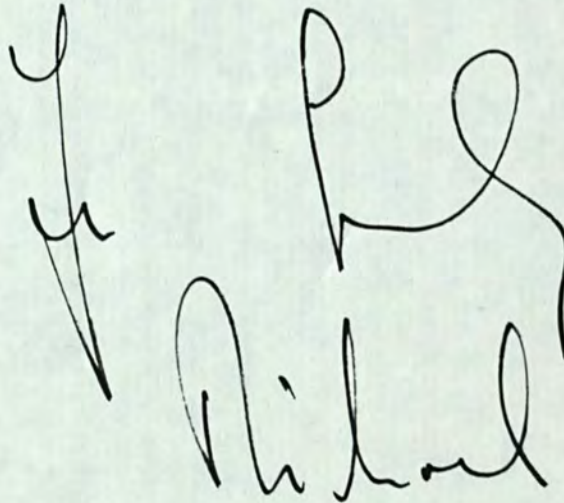
Thank you for your letter of 13 January to Nicholas Ridley, which came as something of a surprise at 8.30pm on the eve of the "L" committee meeting at which the Airports Bill was to be discussed, and in which you maintained that the Bill's provisions for accounting transparency did not meet all the conditions on which you had agreed to our proposals for economic regulation.

A misunderstanding seems to have arisen between our Departments. I have to say that your letter of 30 October to Lynda Chalker, which gave no indication of the extent of transparency you were seeking between different airport activities, left itself open to misinterpretation. At that stage of drafting, we were proposing that airports' accounts should show only subsidy received from external sources. Your officials, in commenting on the proposals, had said that this was insufficient and that there should also be transparency between different activities within an airport. They gave the specific example of traffic and commercial activities. It was hardly surprising that, when we saw your letter, we assumed that the same proposals meant the same thing. Nicholas and I had no difficulty in agreeing to these.

Recent exchanges with your officials have exposed a misunderstanding. In the intervening period, the MMC report on the BAA's commercial activities was published with a recommendation along the same sort of lines. Since this degree of transparency would go much further than has been demanded from any other privatised industry it needs careful and thorough consideration. My officials made clear to yours that we would be considering this in the context of our wider consideration of the MMC report and acknowledged that, should that particular recommendation be accepted, an appropriate amendment would need to be made to the Bill. It was thought that your officials had accepted this as a reasonable approach.

I realise that, since no Minister from your Department was able to be at "L" committee, you wished to put up a marker that the question of transparency was an outstanding point between us. But to say that you could not agree to the Bill as drafted - particularly in the light of the assurances my officials had given yours - was perhaps a little strong. Fortunately Nicholas Ridley's office were able to clarify with yours that you did not intend to block the Bill's introduction on this point and it has now had its first reading and been published. As to the degree of transparency that you wish to see imposed I have to say that the extent of internal transparency in an airport's accounts is an issue which raises important questions of principle. I am doubtful how far we should seek to interfere in the accounting practices of a private sector company. I also very much doubt the practicality of what you suggest. Would the publication of such information be necessary at all, since the information could be obtained by the regulator (whether the CAA or the DGFT or the MMC) in requiring such information for the performance of his functions?

I am not attracted to your ideas, but I suggest our officials could usefully pursue this primarily in the context of a response to the MMC's recent recommendations, on which they are already in touch.

A handwritten signature in black ink, appearing to read "Michael Spicer". The signature is written in a cursive, somewhat stylized hand. It consists of a large initial "M" followed by the name "ichael Spicer".

MICHAEL SPICER