

CHAPTER 3

The British Airports Authority

3.1. This chapter describes briefly the origin of the Authority, its statutory background, the seven airports that it owns and operates, the commercial activities that it carries out at those airports and the shape of its organisation. Some of these matters are developed more fully in subsequent chapters.

Statutory background

3.2. BAA was established in 1965 under the Airports Authority Act of that year. At that time the State owned and operated 22 civil airports and it was decided that four of these—Heathrow, Gatwick, Stansted, and Prestwick, designated Gateway International Airports—should come under the ownership of the new Authority which commenced operations on 1 April 1966. Others, identified as regional airports, were transferred to their respective local authorities; while the Civil Aviation Authority (CAA) subsequently took over, and still operates, the eight small 'Highlands and Islands' airports in Scotland.¹

3.3. BAA subsequently acquired Edinburgh airport in 1971, followed by Aberdeen and Glasgow both in 1975. Thus BAA now owns and operates three airports in the South-East and four under its separate Scottish Airports Division.

3.4. BAA currently operates under the terms of the Airports Authority Act 1975 (the 1975 Act). Section 2(1) of that Act provides that 'it shall be the duty of the Authority to provide at its aerodromes such services and facilities as are in its opinion necessary or desirable for their operation, but the Authority shall not provide any navigation services except with the consent in writing of the Secretary of State'. Other United Kingdom airports are free, within the standards prescribed by the CAA, to provide navigation services themselves and all airports may contract their provision to private companies, subject again to CAA standards and, in the case of BAA, the consent of the Secretary of State. Navigation services at all BAA airports, however, are currently provided by the CAA. Section 2 of the Act also requires the Authority to 'have regard to the development of air transport and to efficiency, economy and safety of operation'. BAA has in agreement with the Government established corporate objectives and performance targets (see paragraphs 5.9 and 5.12).

3.5. The Authority is further empowered, with the Secretary of State's consent, to acquire or discontinue the use of any airport. Although it acquired three regional airports under the original 1965 Act, as noted above, there have been no acquisitions or closures during the currency of the 1975 Act.

3.6. BAA is also required to provide 'adequate facilities for consultation' with the users of its airports, with relevant local authorities and with

¹The CAA is also responsible for air traffic control, air safety, licensing of flight crew, registration of aircraft, certification of operators and of the airworthiness of aircraft, advice to the Government on civil aviation matters etc (see also paragraphs 3.9 and 3.10).

organisations representing the interests of persons in the areas concerned. It has established a Consultative Committee and an Airline Operators Committee at each of its airports; airlines, aviation interests and travel agents are represented on a Consultation Co-ordination Council. There are also some associated groups dealing with particular interests.

3.7. BAA's financial duties are dealt with in section 3 of the 1975 Act, which requires it to conduct its business so that its revenue is not less than sufficient to meet the charges properly chargeable to revenue, taking one year with another. The Secretary of State's approval is required for the lines on which substantial outlay on capital account is incurred. The Authority has in fact financed its operations wholly from internal resources for 13 of the 19 years of its existence and up to March 1985 has paid £92 million in corporation tax.

3.8. Certain other statutes specifically apply to the Authority in the operation of its airports, such as the Civil Aviation Act 1982 which *inter alia* deals with the regulation of aircraft noise. Security measures arising from the United Kingdom's adherence to international conventions are reflected in the Aviation Security Act 1982; security personnel represent the largest single category of staff employed by the Authority.¹ BAA is required by this Act to pay for police services which are provided at each airport by the local force.

3.9. BAA cannot choose which airlines operate from its airports. The CAA licenses all United Kingdom airlines and internal routes, while international air services are operated under the provision of bilateral agreements negotiated by the Governments of the countries concerned and which specify the airports to be used. BAA does, however, have the right to deny the use of its airports to any airline which refuses to comply with the Authority's Conditions of Use.

3.10. All United Kingdom airports also have to be licensed by the CAA and the Government has reserve powers under the Air Navigation Order 1980 to prescribe the landing fees charged. An agreement between the United Kingdom and the United States of America of 23 July 1977 (known as Bermuda 2) requires that these charges shall (in brief) be just and reasonable, shall not discriminate in favour of British airlines and may reflect but shall not exceed the full cost of providing the facilities and services required.

3.11. The level of charges at Heathrow was recently the subject of litigation between the Authority and some airlines. Associated with the settlement of this litigation there was a Memorandum of Understanding dated 6 April 1983 between HM Government and the Government of the United States. Paragraph 4(c) of this memorandum states:

In formulating financial targets with the BAA, HMG acknowledges the need to secure efficient use of the public resources employed by the BAA, and looks for no more than a reasonable rate of return on investment. In computing revenues that contribute to the rate of return on assets, no distinction will be made as to the sources of revenue, including duty-free sales and other commercial revenues.

¹At 31 March 1984 BAA employed 1,870 persons on security out of a total of 6,929 staff.

BAA airports

3.12. The 1978 White Paper on Airport Policy defined four categories of United Kingdom airport:

Gateway International Airports—with a wide range and frequency of international services (Category A);

Regional Airports—with scheduled international short-haul services, charter services and domestic services (Category B);

Local Airports—with local and domestic feeder services and some charter services (Category C); and

General Aviation Aerodromes—concerned primarily with the provision of general aviation facilities (Category D).¹

The paper concluded that there was demand for only one other Gateway International Airport in addition to the four already operated by BAA and that this should be at Manchester, a local authority airport.²

3.13. The seven BAA airports thus comprise two disparate groups serving different markets. The London and South-East group (Heathrow, Gatwick and Stansted) serve most of the United Kingdom's international flights, as well as much domestic traffic. By far the most important of these three airports is Heathrow, which was taken over from the RAF at the end of the war and formally opened as a civil airport in May 1946. In that year 63,000 passengers used Heathrow on 2,046 air transport movements.³ Last year Heathrow was used by over 29 million passengers—making it the sixth busiest in the world; 24 million of these were international passengers—far more than at any other airport in the world. Heathrow now handles over 270,000 ATMs a year, nearly all of which are scheduled services, at a peak time rate of more than one a minute. It also handles over half a million tonnes of cargo a year, which on a value basis (over £16.5 billion) makes it Britain's most important port. Some 46,000 people are employed at Heathrow, although less than 10 per cent of these work for the Authority.

3.14. Gatwick was a small public airport before the war, after which it was chosen as London's second airport. With 14 million passengers and 141,000 ATMs a year it is now the second busiest airport in the United Kingdom and the fourth busiest in Europe: in terms of international passengers it is the fourth busiest in the world. About 40 per cent of the ATMs and 60 per cent of the passengers are on non-scheduled flights, eg charters.

3.15. The third BAA South-East airport is at Stansted, which was not released from United States Air Force use until 1957. More than half of its current annual 12,800 ATMs and 90 per cent of its half a million passengers are on non-scheduled flights and in addition it is much used by general aviation. On 5 June

¹Scheduled services are services publicly advertised by an airline through its issued timetables. Non-scheduled services are other flights by airlines carrying passengers or cargo, eg charter flights. General aviation covers other civil flights, eg flying clubs, air taxis, training and pleasure flights etc.

²We were told that there is no current definitive list categorising all United Kingdom airports, but that Luton (owned by the local authority) is considered a Gateway International Airport.

³An air transport movement, or ATM, is a landing or a take-off by an aircraft operating a scheduled or non-scheduled service. The number of ATMs at an airport will therefore be less than the total of all aircraft movements at the airport (see footnote (1) to paragraph 3.12).

1985 the Government announced its intention that Stansted should be developed, initially to a capacity of seven to eight million passengers per annum (mppa) and, eventually, to 15 mppa.

3.16. BAA's Scottish airports (Prestwick, Edinburgh, Glasgow and Aberdeen) are quite different in scale and character from the London and South-East group. Prestwick, 29 miles south-west of Glasgow, is the fourth of the BAA Gateway International Airports. In the early post-war years it represented an important facility for North Atlantic flights but the longer ranges achieved by modern aircraft have reduced its importance, although it has recently been named as the site for the only Scottish 'free port'. Last year it handled 314,000 passengers on 3,100 ATMs, although the total number of flights including military flights and general aviation was over 30,000.

3.17. The other three airports in the Authority's Scottish Division are the regional airports of Edinburgh with 34,000 ATMs, Glasgow with 55,000 and Aberdeen with 82,000 (of which 46,000 were helicopter movements mainly associated with North Sea oil operations). By contrast Manchester, the largest non-BAA airport, had 70,000 ATMs last year. No non-BAA airport in the United Kingdom exceeded two million passengers in the year, except Manchester with six million.

3.18. In total BAA's seven airports handle 60 per cent of United Kingdom ATMs, 75 per cent of air passengers and 85 per cent of air cargo tonnage. A comparison of BAA airports with other major United Kingdom airports and with some foreign airports is at Appendix 3.1.

Commercial activities

3.19. BAA in its published accounts identifies two kinds of revenue: from traffic and from commercial activities. Traffic revenue is generated by the charges made by the Authority in the pursuit of its 'primary objective'¹—to respond to the present and future needs of air transport, and to operate its airports efficiently and profitably so as to permit the safe and expeditious landing and take-off of aircraft.

3.20. The 1975 Act does not specifically require BAA to engage in commercial activities, but as noted in paragraph 3.4 the Act requires the Authority to provide 'such services and facilities as are in its opinion necessary or desirable'; and it also empowers BAA 'to do anything which is calculated to facilitate the discharge of its duties'. Under these provisions the Authority has developed commercial activities at its airports, mainly to meet the needs of passengers, and to raise revenue which supplements that obtained from landing etc fees. These commercial activities may be broadly divided into the leasing by the Authority of land or buildings to airlines and other airport-related interests, the sale of goods and services to the public and the provision of services to airlines.

3.21. The Authority's policy has been to make arrangements for third parties to sell goods or provide services in return for a consideration. This policy is believed by BAA to introduce competition and private sector expertise, while

¹See the 1985 Corporate Plan, paragraph 5.9.

leaving the Authority to provide essential airport facilities and services: fire and rescue, security and snow clearance are, for example, considered fundamental to safe operation and are provided by BAA at all its airports.

3.22. Payments received under these arrangements with third parties and from the leasing of land or buildings constitute the Authority's revenue from commercial activities. These activities are the subject of our inquiry; they are described more fully in the following chapter.

Organisation¹

3.23. Section 1 of the 1975 Act provides for the Secretary of State to appoint the Chairman of the Authority and to appoint a Deputy Chairman and not more than eight and not less than four other members after consultation with the Chairman. At present the Authority has three full-time Board members—the Chairman, Managing Director, and the Heathrow Airport Director; and six part-time members, one of whom is required by the Act to have special knowledge of the circumstances of Scotland. Full-time appointments are usually for five years and part-time appointments for two or three years. Board meetings are normally held monthly and at least three times a year are held at BAA airports in rotation.

3.24. There are three Committees of the Board: the Audit Committee with five members, four of whom including the chairman are non-executive, with the duty of ensuring the sufficiency of accounts and finances and the maintenance of a direct link with the external auditors; the Design Committee which considers architecture, design philosophy and criteria; and the Salary Committee of part-time members who review and make recommendations on salaries and allowances for senior management and full-time Board members.

3.25. The implementation of Board policies is delegated to the Managing Director who chairs the Executive; the members of this are the Directors for Heathrow, Gatwick and Stansted, the Scottish Airports Director and the Directors of Engineering, Commercial Development, Finance, Personnel, Public Affairs and Planning; together with the Solicitor and the Inspector of Airside Safety and Operations (see Appendix 3.2). The Executive normally meets monthly and is responsible for management of the Authority's airports within the framework of approved policies, for development and presentation of strategic policy and major capital expenditure proposals and for the national and international representation of the Authority.

3.26. The position of Commercial Development Director has been recently introduced with the objective of identifying, developing and promoting commercial opportunities in all non-traffic fields to enhance BAA's profitability. With the establishment of the Trading Department in February 1984 he now has reporting to him the Trading Marketing Manager, the Trading General Manager and the Trading Information Management Manager, as well as the Air Cargo Manager and the General Manager Property (see Appendix 3.3).

¹See Appendix 3.2 for an organisation chart.

3.27. In broad terms the Commercial Development Director and his organisation are responsible for the establishment of policy for property, cargo and all the activities known within BAA as 'Trading'. Trading includes the direction of retail operations, the duty-free and tax-free shops, and the letting of concessions for them and their pricing policies; the identification of new products and services, tendering, merchandising, promotion and advertising; and the management of the contractual relationship with the concessionaires. A more detailed description of the responsibilities of the Trading Department is to be found at paragraph 5.37.

3.28. The Airport Directors have 'line' (including budget) responsibility for all the traffic and commercial activities at their airports. Amongst those reporting to the Director for Heathrow is the Deputy Director Terminals, who in turn has a General Manager responsible for each Terminal. Similarly the Director Gatwick/Stansted¹ has at Gatwick a Deputy Director, with a Terminal General Manager and a Property and Commercial Manager; and at Stansted there is a General Manager with managers responsible for commercial and property matters. Similar arrangements prevail at the Scottish airports. The Commercial Development Director is available in a 'staff' capacity to advise airport managements.

3.29. Thus BAA has, within the area covered by our terms of reference, a separate specialist organisation dealing with commercial development, under its own Director; however, those staff at each airport who are involved in implementing commercial policy do not report to him but direct to airport management.

¹Following the Government decision to develop Stansted (see paragraph 3.15) the separate post of Director of Stansted was established from 1 September 1985.