

9 Views of other interested parties

Government and statutory bodies

Civil Aviation Authority

9.1. The CAA is responsible for the economic and safety regulation of British civil aviation and, together with the Ministry of Defence, the operation of NATS. It also acts as the Government's expert adviser on civil aviation matters generally, regulates airport charges at airports designated under the Airports Act by the Secretary of State for Transport, and examines complaints about unfair trading practices at all major United Kingdom airports. The CAA told us that many of the general issues discussed in its document CAP 599¹ applied equally to MA PLC.

Terminal 2

9.2. The CAA told us that the opening of Terminal 2 in March 1993 would be the most significant event at Manchester Airport for the reference quinquennium. It was characteristic of airports that terminal capacity was added in large discrete tranches: when such capacity opened the airport moved from high utilisation of existing capacity with relatively low unit costs to much lower utilisation and higher unit costs. Such a change was particularly significant in the case of a single airport, rather than a system of airports, and where the additional capacity was large compared with existing capacity. Tentative analysis suggested that the construction costs of the terminal were in line with those for terminal developments at other airports.

9.3. A number of factors complicated the estimation of a reasonable level of staffing and direct operating costs for Manchester Airport as a whole once Terminal 2 opened. A large part of the traffic would be diverted to Terminal 2 and in the early years would relieve the pressure on the existing terminal. This would allow some reductions in staff and costs in areas dependent on traffic volumes which could be set against the direct operating costs of the new terminal. The new terminal had, however, been designed in anticipation of a requirement that all hold baggage be screened, which would impose greater staff costs. It was also as yet unclear what effect competitive tendering for handling would have upon Terminal 2's operating costs.

Financing

9.4. Because MA PLC was wholly-owned by local authorities, it was subject to the external financing restrictions which applied to the public sector. In practice these restrictions meant that a greater proportion of capital investment had to be pre-funded out of current income than might otherwise be the case. MA PLC had not suffered unduly from the public sector financing constraints because the Government had been relatively relaxed about local authority airport investment generally.

9.5. The CAA suggested that the extent of MA PLC's access to outside financing over the reference quinquennium might be an important factor in setting an appropriate price condition. This required an assumption about whether MA PLC would remain in the public sector and, if so, what would be its level of

¹ CAP 599: *Economic Regulation of BAA South East Airports 1992-1997*. Civil Aviation Authority, London, November 1991.

priority in attracting external finance. The CAA was sure that MA PLC was attractive as a candidate for privatisation, though of course it was not the Government's to sell. On the possibility of joint funding of projects, the CAA said that, as far as it was aware, MA PLC had not made use of this nor did it intend to.

9.6. If a price condition for MA PLC were to be based upon the application of public sector external financing constraints, the scale of MA PLC's investment plans would become a more influential determinant of a reasonable price formula than otherwise. MA PLC's development plans sprang from the belief that the IT business, which had traditionally formed a major part of the business of Manchester Airport, was in a state of transition and the high growth rates of this sector in the past might not be repeated in the future. MA PLC also believed that increasing integration and liberalisation in Europe would create opportunities for scheduled services. MA PLC's strategy included the promotion of Manchester Airport as an interchange hub for scheduled traffic.

9.7. The additional services which MA PLC sought to attract would have a lower average passenger load per aircraft than the existing traffic mix with its high IT content. This was likely to bring forward the need for a second runway. MA PLC was looking at options to start building a second runway towards the end of the reference quinquennium. It also envisaged a continuing programme of capital expenditure to update and extend its existing facilities which would involve even more significant expenditure than would be required for the second runway.

Security charges

9.8. MA PLC was able to recover 75 per cent of additional annualised security costs incurred when it implemented Government security directives. There was a delay of two years before recovery in order to allow for full verification of the costs by the CAA.

9.9. Section 40(6) of the Airports Act allowed the CAA to alter the charges formula between quinquennial reviews with the agreement of MA PLC. In its decision on airport charges following the 1987 inquiry, however, the CAA had said that it would do so only in exceptional circumstances. MA PLC had asked the CAA to vary the formula in respect of security on the grounds that the level of costs associated with additional security measures since the Lockerbie disaster could not have been foreseen at the time the security factor was set.

9.10. MA PLC had more recently proposed a separate security charge to be levied on airlines on a per passenger basis from 1 April 1992; immediate and full recovery of any additional security costs arising from enhanced Government security requirements; full recovery of additional security costs incurred in earlier years; policing costs to be included within the security charge; and the charge to be increased by the increase in the RPI each year.

9.11. These proposals were due to be discussed with airlines, which had earlier indicated that they supported the concept of a separate charge for security but did not favour either immediate or full recovery: nor did they favour policing costs being included within the charge. Under its latest proposal, MA PLC would seek to recover through the new charge only a proportion of general security and policing costs. As the reference to the MMC was imminent when the latest proposal was made, MA PLC had agreed that the most appropriate method for the recovery of security costs should be an issue for us to consider as part of our investigation.

9.12. The CAA said that MA PLC's proposal to base the recovery of security costs on a separate charge could have some advantages—for example, providing greater transparency to airlines—although the CAA continued to have doubts about the advantage of a separate charge. In particular it was concerned about its ability to confirm what were genuine security costs.

9.13. The CAA had concluded that MA PLC should be treated no less well than BAA. Nevertheless, the CAA invited us to recommend a different approach if we felt that this was warranted by MA PLC's proposals. A separate security charge would remain an airport charge as defined under the Airports Act, but in controlling charges it would be possible to differentiate between security and the other airport charges.

The form of regulation

9.14. The CAA believed that the regulation of charges at Manchester Airport should continue to be determined by reference to a condition based on changes in the RPI and expressed as RPI-X. The CAA had told the MMC at the beginning of the BAA inquiry that if it were thought necessary in the long run to raise prices relative to general inflation, a system where X would need to be negative could be inappropriate. While the CAA did not believe that this could be the case for MA PLC, it still held this view.

9.15. Even if such circumstances did prevail, the CAA did not believe that charges should be regulated by simply a rate of return system. The CAA referred to the BAA argument that ROR regulation pure and simple would inhibit management who were trying to make efficiency savings and change a company's direction and organisation. MA PLC was probably in a similar position and for the same reason would probably not be keen on pure ROR regulation.

9.16. Following the 1987 inquiry, the CAA had chosen to base the formula on a revenue yield rather than a tariff basket approach. There had been no problems in using the revenue yield approach in relation to MA PLC. The CAA agreed that a volume-related formula transferred the volume risk from the airport to the airlines.

9.17. The CAA favoured the use of historic RPI and did not support, contrary to the wishes of MA PLC, a reduction in the period before corrections were made for under- or over-estimation of the yield. In the context of the application of sub-formulae under the Airports Act, for example for landing as against passenger charges, the CAA took the view that we had to recommend maximum amounts for all relevant charges and that it was not open to us to recommend limits for some charges and not for others.

Airport navigation charges

9.18. A number of airlines had commented on the apparent inclusion in the regulated charges of airport navigation fees, which currently totalled around £4 million a year. These charges were levied by MA PLC and the airlines thought that there was an element of double counting. The CAA said that MA PLC had put this service out to tender and had chosen NATS. It was, therefore, no different from any other bought-in service.

9.19. On the issue of outside costs, the CAA highlighted the rents and rates paid by MA PLC to the City Council. MA PLC's financial model projections showed these to be large and increasing rapidly, from [*] in 1987/88, to [*] in 2000 and [*] in 2001. The CAA was concerned that airport charges at Manchester Airport might be seriously affected by the local authority's decision on how much to levy.

The size of X

9.20. The CAA thought that the original RPI-1 formula might need to be tightened, though it had not reached any view as to the appropriate value of X. MA PLC's charges were high in comparison with those of BAA's South-East airports, though the rate of profit had been constrained by investment in Terminal 2. Once the new terminal was opened there would be growth at virtually no incremental cost. Although the next two years could be difficult for MA PLC, with possibly a loss of profit and dividend, from year three of the reference quinquennium onwards the value of X could be fairly large. It might also be necessary to place more emphasis on the subsequent quinquennium when charges might need to fall substantially in real terms. The circumstances might also suggest moving away from the concept of a constant value for X throughout the quinquennium to one that changed over the period.

*Figures omitted. See note on page iv.

Risk premium

9.21. MA PLC obtained its capital through the City Council and borrowings guaranteed by the Government. The CAA believed, therefore, that MA PLC would pay a lower-risk premium than would a true public limited company. MA PLC was not regarded as being a greater risk than the three London airports taken together; it was certainly much less of a risk than Stansted.

Public interest issues

9.22. The CAA did not believe that MA PLC's landing charges discriminated unduly against larger aircraft or encouraged uneconomic use of the runway. The structure of runway charges was about right at the moment, although as the runway became progressively more congested the structure would need to be reviewed.

9.23. The CAA was able to undertake only routine monitoring of MA PLC's productivity. Monitoring was an intractable problem, compounded by the fact that it was not possible reliably to compare the efficiency of differing airports. Indeed, one of the difficulties in the ramp handling case had been the inability of the airlines to produce a comparison of charges at Manchester Airport with those of other airports.

9.24. The CAA had not received or discerned any serious complaint about the quality of service at Manchester Airport. Any complaints tended to relate to random, one-off incidents. Nor had the CAA found it necessary to carry out routine monitoring on quality of service. According to the CAA, MA PLC had made quality of service criteria for activities such as handling freely available.

Ground handling

9.25. In 1990 the AOC had complained to the CAA about MA PLC's arrangements for baggage, freight and ramp handling at Terminal 1. The AOC had asked the CAA to impose a condition under section 41(2) of the Airports Act which would require MA PLC to allow at least three ground handlers to operate at Terminal 1. These handlers should be selected by competitive tender. MA PLC had emphasised the lack of space in Terminal 1 and argued that, for safety reasons, it would not be feasible to appoint more than one ground handler.

9.26. The CAA had accepted an undertaking from MA PLC that it would conduct a competitive tender for the award of a single contract to perform all ground handling at Terminal 1 for a period of no more than five years as from 1 April 1992. MA PLC had volunteered to disclose to the CAA all the documentation and the rationale for the decisions taken during the tendering process and to provide quarterly reports on the progress made towards implementing the undertaking. The undertaking also provided for competing handlers, possibly four in number, to be appointed at the new terminal, thereby providing a benchmark with which charges in Terminal 1 could be compared.

9.27. Seven companies had advised MA PLC that they were interested in bidding for the contract. MA PLC had excluded three of these companies from the bidding process on the grounds of insufficient experience or lack of financial standing. Tender documentation was sent to AMR, Ogden Aviation, RHSL and Sigma. MA PLC had informed the CAA that Ogden Aviation and Sigma subsequently withdrew, while AMR had submitted a tender that could not be considered seriously. The CAA did not have any firm evidence to suggest why the potential and actual tenderers acted in such a way that RHSL was left as the only real choice.

9.28. The CAA noted that airlines would receive some benefit from the new handling arrangement. Charges for ramp handling were to be reduced by 10 per cent, while for some airlines the saving would be of the order of 15 per cent. The CAA agreed that such a reduction in charges suggested that MA PLC had previously overcharged. It was open to conjecture what savings multi-handling might achieve.

9.29. MA PLC's progress on productivity improvements and industrial relations, although not as quick as it might have been, had been reassuring. For example, the CAA understood that part of the arrangements

with RHSL for ramp handling was a clause which specified compulsory reference to ACAS before industrial action. In addition, ramp handling staff numbers were to be cut by 20 per cent.

Department of Trade and Industry-North West Region

9.30. The North-West regional office of the Department of Trade and Industry (DTI) emphasised to us the socio-economic importance of Manchester Airport. With a market spread which encompassed North and Central England, the airport was of national and regional significance. It was of critical importance to industries located in the region and to business visitors to the area.

9.31. DTI said that the development of an enhanced infrastructure was essential for the economy of the North-West, especially as strong international links had been forged by the business community, reinforced by the large number of foreign-owned and multinational companies located in the region. The continued success of Manchester Airport was, therefore, essential to the development and promotion of the North-West and to attract investment.

9.32. The total number of employees supported by the airport and its activities was estimated to be between 38,000 and 48,000, or 3.5 per cent of the total numbers employed in Greater Manchester and Cheshire. The airport's importance as a major regional employer was highlighted when its growth was compared with the overall decline in the North-West's economy. If the projected increases in passenger numbers were realised, a further 13,000 posts would be created. This was calculated on the premise that for every 1 million extra passengers using Manchester Airport, 1,000 new jobs would be required.

9.33. Manchester Airport was a major economic growth point in the North-West and was important not only in itself but also as a symbol of the region's self-confidence. The airport's expansion had not been restrained by MA PLC's charge levels.

The Department of Transport

Background

9.34. DTp said that the Government's overall approach was set out in the 1985 White Paper 'Airports Policy'. The Government sought to facilitate the provision of airport capacity to meet demand substantially where it arose, while minimising the effects of airports on the environment generally. A related objective was to encourage the use and development of regional airports so that they could meet the maximum demand they were able to attract.

9.35. The White Paper had proposed that the major local authority airports be turned into companies and encouraged to attract private sector capital. Local authorities were not to be compelled to privatise their airports but the Government had hoped that they would see the advantages of introducing private capital, especially in order to finance new development. In April 1991 the Government had stated that it was considering the case for compulsory privatisation of the public airport companies. Privatised airports would be more effective, efficient, innovative and responsive to market needs.

9.36. DTp explained that Manchester Airport was restructured as a public company by its owners in anticipation of the Airports Act, but was nevertheless a public airport company in the same way as the 14 others currently in existence. There had been little constraint on Manchester Airport's growth: ATMs, passenger numbers and destinations had risen impressively between 1981 and 1990. There was potential for further growth through the abolition of route licensing within the EC and the liberalisation of international routes, particularly to the United States of America.

Financial controls over local authority airports

9.37. Although Manchester Airport was structured as a public limited company, it was owned by a group of local authorities and thus remained in the public sector. MA PLC was, therefore, subject to a statutory framework which controlled local authority expenditure. DTp informed us that the form of expenditure control which applied at the time of the 1987 inquiry had been found to be technically deficient and had been replaced by the provisions of Part IV of the Local Government and Housing Act 1989 (the 1989 Act). Section 39 of the 1989 Act enabled the capital finance system which applied to local authorities to be extended and adapted so as to take account of the capital finance transactions of bodies under local authority control. Effectively the new system had removed any incentive to use one form of credit rather than another, except where it was more cost-effective to do so. It was not the intention to control the amount airport companies could invest but merely to ensure they had proper regard for the PSBR.

9.38. A control was placed on increases in relevant liabilities between 31 March in one year and 31 March in the following year. Relevant liabilities were non-current liabilities due after more than 12 months, plus the amount, if any, by which current liabilities due within 12 months exceeded current assets. The controlling authority had to provide credit cover for the amount by which the relevant liabilities figure was higher than the equivalent figure the previous year. A number of sources of credit cover were available. In particular, controlling authorities could themselves provide credit cover to the extent that the Secretary of State for Transport issued a supplementary credit approval under section 54 of the 1989 Act.

9.39. DTp had indicated to MA PLC that in general it was expected to use internally-generated funds before a supplementary credit approval was issued to the City Council, which was the controlling authority. In view of the scale of the expenditure on Phase 1 of Terminal 2, however, DTp had allowed MA PLC to retain sufficient accumulated resources to ensure that, if supplementary credit approval were not made available to the extent needed in a particular year, it would be able to continue with the project.

9.40. In December 1990 the Government had stated, in connection with the announcement of the total supplementary credit approvals available for local authority airports in 1991/92, that supplementary credit approvals would be reduced substantially in the next two years and beyond, the period during which Phase 1 of Terminal 2 would be completed. Local authority airports would have to look increasingly to the private sector to take a stake in the success and risks associated with particular projects. The Government had not yet refused to sanction any borrowings in order to encourage private sector finance but the recently published DTp Annual Report figures for local authority airport approvals, £72 million for 1992/93 compared with £27 million and £28 million in 1993/94 and 1994/95, strikingly demonstrated the Government's planned reduction in this aspect of local authority spending.

9.41. DTp told us that its policy was to encourage airport companies to attract the private sector to risk-taking investments such as the construction of a cargo centre or a hangar. Another alternative would be a joint venture arrangement in which the airport company had only a minority interest. As far as the Government was concerned, there was no limit on the amount of private sector capital that could be attracted, but MA PLC's record in seeking private sector financing had not been good. Its policy was to develop through public sector financing and it appeared reluctant to try to attract private sector finance on a risk-taking basis.

Demand

9.42. About every two years DTp produced long-term forecasts of passenger demand for air travel by United Kingdom and foreign residents to and from the London and regional airports. Forecasts for individual airports were not produced. In the latest passenger forecasts, traffic at the regional airports was expected to increase over the period 1989 to 1995 by about 20 per cent in the low-growth scenario and 45 per cent in the high-growth scenario. Over the period 1989 to 2005 traffic at the regional airports was forecast to increase by about 95 to 170 per cent.

9.43. Growth at the regional airports was expected to be somewhat higher than at the London airports, as the share of total United Kingdom traffic wishing to use regional airports rose. The potential for growth in demand could be greater outside the South-East given the somewhat lower existing propensities of people from other regions to travel by air. This was consistent with the view that regional airports would continue to introduce new routes and more frequent services.

9.44. The forecasts of demand were presented as a range to reflect the uncertainty surrounding the main determinants of air travel, including economic growth and movements in exchange rates. Demand forecasts for regional airports were also sensitive to assumptions made with respect to capacity at the London airports. For the period of these forecasts, however, possible constraints at the London airports did not have much impact on the projections of regional or London traffic.

Airport charges

9.45. In considering the maximum amounts to be levied by way of airport charges over the next five years, DTp believed that we would need to bear in mind the provisions of section 39 of the Airports Act, which required the CAA to 'take into account such of the United Kingdom's international obligations as may be notified to it by the Secretary of State'. These obligations arose from Article 15 of the Convention on International Civil Aviation of 7 December 1944 (the Chicago Convention), which provides for airports to be made available on uniform conditions (including charges) to aircraft of different nations; the Air Services Agreement with the Government of the United States of America signed at Bermuda on 23 July 1977[

Details omitted. See note on page iv.];

and other bilateral agreements between HM Government and the governments of other states in relation to the provision of air services.

9.46. DTp noted that the CAA had expressed the view that the maximum amounts to be levied by way of airport charges should continue to be specified in the form of RPI-X. DTp did not feel it had sufficient information to offer a view on an appropriate value of X for the next five-year period. It did, however, have views on the principles for setting the overall level of charges. The value of X for the reference quinquennium would need to be based on robust assumptions about the future financial performance of MA PLC, including traffic and commercial activities. The key objective in setting X should be to ensure that the price cap formula provided an incentive to improve efficiency, while ensuring that MA PLC continued to have adequate resources to fund its capital programme and provide the additional capacity which forecasts suggested would be needed. The value of X would also have to be consistent with the United Kingdom's international obligations where these were relevant to services at Manchester Airport.

9.47. The rate of growth in traffic had been mentioned in the 1987 report as a major source of uncertainty in setting X. When faced with the same problem in the context of the original regulation of BAA in 1986, the Government had considered the possibility of a formula in which X would be related to the growth in traffic in that it would permit charges to be higher for periods of lower growth and lower for periods of higher growth. The Government had decided in favour of an absolute value for X as it believed that a growth-related X would weaken the incentive to cut costs in periods of low growth and could act as a disincentive to investment in periods of high growth. This approach had been continued in the 1992-97 formula set for BAA's South-East airports.

9.48. MA PLC's investment plans would obviously be a factor in setting X. The value of X needed to be such as to allow a level of charges sufficient for MA PLC to fund capital expenditure having regard to the borrowing constraints placed on it through being in the public sector. How far MA PLC could fund new investment would depend on its ability to generate internal resources and, possibly, to attract private capital.

9.49. DTp said that, apart from cash flow required to fund expenditure, the formula needed to be such that MA PLC could expect to earn a rate of return over the longer term that gave an adequate incentive to continue investing in improved or new facilities, and an ability to attract funds. If this were not the case the result could be delay in worthwhile schemes for which users were prepared to pay.

9.50. DTp recognised that reaching a view on an appropriate rate of return was not easy. The financial requirements of potential private sector investors could, however, be assessed by considering the rate of return earned by other United Kingdom companies, and financial factors such as the debt:equity ratio and dividend and interest yields.

9.51. Capital expenditure financed by public sector borrowing was required to earn an 8 per cent real rate of return and this could be a reasonable starting point. DTp considered that MA PLC was in competition with BAA's South-East airports and did not have a strong monopoly position, so it could not necessarily be assumed that MA PLC was a particularly low-risk business.

9.52. Following the MMC's 1987 review of Manchester Airport, the CAA had decided that the price formula for the current quinquennium should be based on revenue yield rather than a tariff basket. DTp said that the main argument in favour of the tariff basket was simplicity in that it did not require forecasts of traffic for the following year. DTp favoured the revenue yield approach because the tariff basket could give the perverse incentive to raise charges at a faster rate for off-peak traffic. The need for basket weights also made it difficult to incorporate new charges. Revenue yield avoided such difficulties and was more flexible.

9.53. DTp recognised that there were difficulties with the revenue yield approach. It required forecasts of the traffic mix to be made for the following year, with a correction factor used to adjust for any under- or over-shooting. It also required a view to be taken on inflation for the following year, although, as recommended by the MMC and the CAA in the recent BAA review, a useful way forward was to base the formula on the previous year's inflation.

9.54. Overall DTp believed that the revenue yield approach had worked reasonably well over the current quinquennium and it saw no case for shifting to a tariff basket. It noted that the MMC had come to the view that there were insufficient grounds for changing the existing revenue yield form of regulation for BAA's South-East airports. Given the competition between those airports and Manchester Airport, DTp considered that this aspect of the regime should be applied to both.

9.55. The calculation of the maximum average revenue per passenger under the formula set in 1987 included a security factor. This reflected changes in the costs of providing airport security which were incurred as a result of any changes in the Government's aviation security requirements. The CAA investigated and certified such cost changes, of which 75 per cent were recoverable two years after the change in requirements. This arrangement had been designed to provide an incentive to implement new security measures in an efficient manner.

9.56. DTp understood that MA PLC had proposed that its price-cap formula be amended to allow for full and immediate recovery of costs associated with new standards of security. Following consultation on this proposal, the CAA had offered MA PLC the possibility of having the benefit, for the final year of the current quinquennium, of an arrangement similar to that which it had agreed for BAA following the MMC's inquiry in 1991, namely a 95 per cent rate of recovery after one year instead of two.

9.57. DTp said that the security factor was undoubtedly a matter which we would wish to examine in addressing the charging regime for the reference quinquennium. DTp considered that airports should have some incentive to implement security measures efficiently, within a general approach which associated costs with those on whose behalf they were incurred. DTp therefore opposed the suggestion that security charges be removed from the formula. Instead it wished to take as its starting point the decision which the CAA had made in November 1991 in relation to BAA.

9.58. DTp thought that we might wish to be aware of some issues which could affect MA PLC's business environment over the reference quinquennium but whose outcome was at present unclear. We would need to bear in mind whether it would be appropriate to build in contingent arrangements with respect to these issues, or whether they should be noted as possible causes for revisiting the formula under section 40(6) of the Airports Act.

9.59. MA PLC was likely to wish to build a second runway and at least to begin construction of Phase 2 of Terminal 2 during the reference quinquennium. DTp had seen no firm cost figures at this stage for either project, but estimates of £100 million plus for the runway and £250 million plus for the terminal, both at

1991 prices, had been mentioned. Although on the basis of the Government's policy MA PLC would be expected to look to the private sector to bear the risk in financing these developments, DTp would not wish necessary development to be frustrated by an inflexibility in the regulatory mechanism. Any such arrangements would, of course, need to conform with the United Kingdom's international obligations.

9.60. DTp told us that decisions had yet to be taken on frontier controls in the context of the EC single market. The European Commission took the view that the internal market meant that there should be no barriers to the passage of people between one member state and another, and it envisaged removing intra-EC traffic from the current controls on international passengers passing through airports. To do so would mean adding them to the existing domestic flows or setting up a separate EC channel. The implications for airports of the former course would vary according to the proportions of domestic and international traffic which they handled, and the amount of any spare capacity at existing facilities. Separating out EC traffic would require new construction at most airports.

9.61. DTp understood that at Manchester Airport the pier structure of Terminal 1 would result in a mismatch of demand and capacity arising from any such reorganisation of traffic. Adaptation of the terminals could involve substantial construction work, there would be a high direct financial cost, and the loss of capacity could in turn lead to other development proposals needing to be brought forward for earlier implementation than would otherwise have been necessary. MA PLC had estimated in 1990 that the direct financial costs of adaptation could amount to upwards of £50 million in Terminal 1, plus another £5 to £10 million at the new Terminal 2. In addition it had estimated that Phase 2 of Terminal 2 could be required two years earlier than would otherwise have been the case.

9.62. MA PLC's position was made more difficult by the uncertainty of the situation. The uncertainty arose because the United Kingdom Government took a different view from the European Commission and most other member states of the obligations deriving from the Single European Act. It had therefore stated its intention to retain the essential features of those frontier checks aimed at social rather than fiscal control, such as prevention of illegal carrying of drugs or firearms. The most economical way to maintain these checks was to continue with the present traffic mix and flow at United Kingdom airports.

9.63. The United Kingdom Government strongly held to the view that social checks on EC citizens must continue to operate at the point at which they entered the country. If this view did not prevail, a change in the layout and/or operation of airports would be required. In this event there would have to be a period for airports to carry out these adaptations. Work would have to start within MA PLC's reference quinquennium and would have implications for throughput, as well as for investment.

9.64. EC Finance Ministers had agreed in November 1991 that the present system of duty-free allowances for intra-EC travel—a major source of revenue for United Kingdom airports—would be retained until 1 July 1999. The decision provided the industry with time to adapt and a clear planning framework.

Local authorities and representative bodies

Ashley Parish Council

9.65. Ashley Parish Council (Ashley), which is located to the west of Manchester Airport, told us that it was concerned that the community would be split in half by option 2 for a second runway which was contained in MA PLC's Draft Development Strategy. MA PLC had not proven the need for a second runway. Ashley was worried about the number of grey areas in the Draft Development Strategy, particularly with regard to the siting of roads and services and the destruction of green belt and areas of outstanding natural beauty.

9.66. Regardless of any future development, the noise now generated by the airport was unbearable for people living under the flight path and beside the runway. A major complaint was the fact that 70 per cent of aircraft did not keep to designated flight paths. Whilst Ashley was not totally opposed to progress at Manchester Airport, it recommended that Liverpool Airport with a potentially longer runway and larger site should be developed in conjunction with Manchester Airport to create a Northern gateway to Europe.

Bolton Metropolitan Borough Council

9.67. Bolton Metropolitan Borough Council (Bolton), a shareholder in MA PLC, told us that its major concern and interest was the contribution which Manchester Airport could make to the overall economic well-being of Greater Manchester and the North-West. The ongoing development and success of the airport was critical to Bolton's residents and the wealth of the area.

9.68. To this end, Bolton felt that any tariff arrangements must ensure that MA PLC was able to make substantial investments in the development of Manchester Airport. The completion of Terminal 2 and the start of construction of a second runway was critical to the long-term success of the airport and, therefore, to the economic well-being of Greater Manchester.

9.69. Bolton would expect no relaxation in MA PLC's efforts to operate as cost-efficiently as possible. The tariff should, however, be allowed to rise at least in line with inflation so as to ensure that adequate revenue was available to protect the development of Manchester Airport.

9.70. Bolton did not believe that MA PLC had operated or might be expected to operate in a manner which was against the public interest. The whole ethos of MA PLC was to operate economically and efficiently in a manner which served the public interest.

Cheshire County Council

9.71. Cheshire County Council told us that MA PLC was important to the regional economy: its investment in the second terminal at Manchester Airport had the potential to generate another 30,000 jobs in the region. Restrictions on MA PLC over the reference quinquennium could have implications for the wider economy and regional jobs and wealth generation.

Knutsford Town Council

9.72. Knutsford Town Council (Knutsford) told us that MA PLC determined night flight quotas. Over the years these had consistently grown and had often been exceeded. The 1990 quota allowed for as many night flights as Heathrow and Gatwick combined. Such a level was unacceptable and Knutsford would like to see Manchester Airport designated so that greater control of night flights could be exercised.

Lancashire County Council

9.73. Lancashire County Council (Lancashire) told us that it worked closely with MA PLC on strategic matters which reflected the importance of Manchester Airport to the North-West. Lancashire strongly supported MA PLC's future development strategy.

9.74. Lancashire was not aware that MA PLC had operated or may be expected to operate against the public interest. On the contrary, MA PLC had the interests of the North-West at heart. Any charging regime should enable future investment to be met and allow shareholders to receive a reasonable return, as would be the case with any other public limited company.

Macclesfield Borough Council

9.75. Macclesfield Borough Council (Macclesfield) told us that Manchester Airport lay partly within its boundary. On average 80 per cent of flights took off over the Macclesfield district, in particular Knutsford and Mobberley. Residents suffered greatly from aircraft noise, much of which occurred at night as approximately half of Manchester Airport's passengers were on charter flights.

9.76. Macclesfield had sought over many years to achieve protection for the residents from the noise, mainly through the Airport Consultative Committee. A limit had been placed on the number of night flights; there was a sound insulation scheme for properties within defined flight corridors; and restrictions were placed on the height at which aircraft were allowed to use full thrust.

9.77. Complaints were, however, still received regarding night flights and the failure of aircraft to follow approved flight paths and noise control procedures. MA PLC had restricted the growth in night flights and imposed severe fines on airlines for deviation from designated tracks. Macclesfield urged that we support the continuation of such a system as a means of environmental control, regardless of any arguments which the airlines might advance against the charges.

Metropolitan Borough of Wirral

9.78. Metropolitan Borough of Wirral said that MA PLC's charges should be a compromise that would allow Manchester Airport to operate on a financially sound basis, while not prejudicing any possible expansion and development at Liverpool Airport.

Millington Parish Council

9.79. Millington Parish Council described Manchester Airport as the lifeline of North-West England. MA PLC did everything in its power to inform the public on policy matters and airport activities, and always investigated complaints.

Mobberley Parish Council

9.80. Mobberley Parish Council (Mobberley), located immediately to the south and south-west of Manchester Airport, told us that aircraft flew directly over its area. Mobberley considered that MA PLC had operated against the public interest in several ways. Until 1987, Mobberley was represented on the Airport Consultative Committee by its own Macclesfield Borough Councillor, whose prime concern was the well-being of Mobberley. Since then all the representatives of Macclesfield Borough Council and Cheshire County Council on the committee had been from other areas and could not be expected to be protective of Mobberley's interests to the same extent. Mobberley contended that as a statutory authority which occupied all the southern boundary of the airport, it should be allocated a place on the committee as of right.

9.81. Little regard had been shown for the people of Mobberley by MA PLC. Manchester Airport had become busier with an increase in both day and night flights. Whilst the area for which a double glazing grant was available had been widened, the grant did not cover the whole house or the full cost and did not compensate for the ensuing noise. The proposals for a new runway and the extension of the existing runway were of great concern. This would require the acquisition of open land, footpaths and roadways and bring aircraft nearer to centres of population. A second runway would also require ancillary development such as buildings, car parking and improved and new roads.

9.82. Mobberley suggested remedial action. New construction at Manchester Airport should be restricted to the Manchester side of the River Bollin and night flights should be severely limited or preferably prohibited. The Government should operate an airports policy which provided for benefits and drawbacks to be distributed evenly to other airports in the vicinity. There should be a rapid phasing in of quieter aircraft. Double glazing grants should be 100 per cent and the grant area extended. Following

consultation, flight paths to and from Manchester Airport should be clearly laid out. Aircraft would have to follow these or airlines would be fined. MA PLC should concentrate on air travel and not encourage non-travellers who only added to the traffic congestion and worsened the already serious air pollution problem.

9.83. During the early 1980s, the policy of Manchester Airport had apparently changed from providing cost-effective passenger and freight facilities to one of expansion at any cost in order to capture all ATMs north of the Midlands. Mobberley believed that the further introduction of more advanced technology and systems, which would improve utilisation of the airport's manoeuvring area, was being sacrificed to increased staffing levels and massive development proposals.

9.84. During the 1970s and early 1980s, the airport's senior management had provided for two reserve funds, one for renewals and a second for capital expenditure, which would negate the need to add a levy on the rateable value of both the City Council and the Greater Manchester Council. These funds were set at such a level that, after meeting operational costs, there was a balance which subsidised the City Council and Greater Manchester Council rates. The airport's renewals and capital expenditures were programmed on a rolling five-year sequence, and controlled to keep within the appropriate reserve funds.

9.85. By 1984 airport management appeared to be driven hard by the unions, and private enterprise was denied the opportunity to improve aircraft turn-round times. As a result, aircraft had to stay on the ground longer than necessary and more aircraft stands were required. Fees and charges, particularly car park charges and the passenger landing supplement, had been raised well above the rate of inflation.

9.86. When MA PLC was created in 1986 staffing levels at Manchester Airport had been increased, as were fees and charges. Capital reserve funds in the local authorities, mainly the Greater Manchester Council, were transferred to MA PLC's capital fund. MA PLC had not acted in the public interest, particularly with regard to car park charges and the aircraft handling monopoly. The current formula imposed only a marginal penalty on MA PLC and had not stopped its extravagance.

9.87. In order to recover the capital spend on the domestic and second terminals, and to counter its operational inefficiency, MA PLC had decreed that a second runway was required. This would adversely affect the public within the adjoining areas, particularly Mobberley, Style and Knutsford. Mobberley believed that more privatisation and increased airside operational efficiency would for the foreseeable future negate the need for a second main runway. Furthermore, some traffic should be transferred to Liverpool International Airport. A combination of the strict application of the Airports Act, the use of more modern technology, and increased efficiency would result in the preservation of property around the airport's confines and the adjoining environment.

9.88. Mobberley argued that X should be given a value which would ensure that MA PLC maximised its efficiency and introduced competition in respect of those activities which it currently monopolised.

Plumley with Toft and Bexton Parish Council

9.89. Plumley with Toft and Bexton Parish Council was conscious that Manchester Airport was a large and progressive facility which served the whole of the North-West. It was difficult to believe that MA PLC had overcharged for its facilities; otherwise it would not have grown and made the progress it had. The airport's facilities were compatible with serving one of the largest areas in Great Britain and its level of support should reflect this situation.

Rochdale Metropolitan Borough Council

9.90. Rochdale Metropolitan Borough Council (Rochdale), a shareholder in MA PLC, told us that the successful operation and proposed development of Manchester Airport would continue to contribute to the economic well-being of Rochdale.

9.91. MA PLC should be allowed to increase the level of airport charges in line with increases in the RPI during the reference quinquennium in order to help fund the Manchester Airport development programme. This programme was in the public interest and would benefit the people and business community of Greater Manchester and the region as a whole, as well as serving the airlines.

Rostherne Parish Council

9.92. Rostherne Parish Council (Rostherne) told us that it was concerned with environmental matters and not airport charges. Rostherne had become increasingly dismayed at the encroachment on the environment of airport activity, in particular the phenomenal increase in night flights. It had been hoped that these would have been restricted by the Secretary of State designating the airport but he had declined to do so. Rostherne was also opposed to the proposed building of a second runway and fully supported the Knutsford and Mobberley Joint Action Group in the campaign against it.

9.93. Rostherne said that there was widespread dissatisfaction at MA PLC's response to complaints and it was strongly felt that the Airport Consultative Committee was not properly representative of environmental groups. Being so heavily outnumbered, representatives of those groups had no hope of winning a vote on matters such as proposed aircraft night quotas.

Staffordshire County Council

9.94. Staffordshire County Council told us that Manchester Airport played a major part in the transport infrastructure of the West Midlands. MA PLC's enlargement of the international air travel facilities was particularly valuable to the industrial development and travel prospects in the North-West and West Midlands, and Staffordshire in particular. Airport charges should be kept to a minimum as this would encourage further development, extend the use of the airport and alleviate the effects of the recession.

Tameside Metropolitan Borough Council

9.95. Tameside, a shareholder in MA PLC, considered that MA PLC had, at all times, operated on the basis that the public interest was its first priority. MA PLC's shareholders, who acted on behalf of the entire population of Greater Manchester, ensured that this was so.

9.96. The shareholders were in the best position to determine the level of airport charges from 1 April 1993. Only by continuing with the current arrangements could decisions be reached which would achieve the best deal for the future prosperity of the airport without compromising the interests of the public at large.

Trafford Metropolitan Borough Council

9.97. Trafford Metropolitan Borough Council (Trafford), a shareholder in MA PLC, told us that it was not aware that MA PLC, or its largest shareholder the City Council, had operated against the public interest. Manchester Airport was a strategic asset within the region's infrastructure and a vital component in the regeneration of the economy.

9.98. Whilst there needed to be the closest scrutiny of MA PLC's operations and expenditure plans to obtain value for money, it seemed wholly appropriate that operating surpluses were returned to, in particular, local authorities like Trafford whose communities suffered from the environmental drawbacks of any airport operation.

Vale Royal Borough Council

9.99. Vale Royal Borough Council valued the efforts of MA PLC in ensuring that aircraft followed established and agreed flight paths and recognised that financial penalties on transgressions were an important part of this control.

Wigan Metropolitan Borough Council

9.100. Wigan Metropolitan Borough Council (Wigan), a shareholder in MA PLC, told us that the continued growth of Manchester Airport would improve transportation links to the rest of the world and sustain the airport's role as a generator of economic growth.

9.101. MA PLC should be able to levy such airport charges as were needed to ensure that it made an adequate rate of return given both past and proposed levels of investment. Wigan was not aware of any conduct by MA PLC which had operated or might be expected to operate against the public interest.

Trade unions

Association of Clerical Technical Supervisory Staffs

9.102. The Association of Clerical Technical Supervisory Staffs (ACTS) represents employees in clerical, supervisory, middle management and some senior management, covering all areas of MA PLC's activities.

9.103. ACTS believed that Manchester Airport was a success regionally, nationally and internationally, and was helping to revitalise the economy of the North-West. The expansion of the airport had created employment in areas not associated with aviation. Most people in the North-West believed Manchester Airport to be good for the region in employment terms, a solid part of the infrastructure, and an asset to local business.

9.104. MA PLC should be able to levy reasonable charges in order to develop passenger terminal and runway capacity in a way that improved and maintained service standards. Account should be taken of the needs of the travelling public, as well as the vested interests of airlines and handlers. Charges should also reflect the cost of environmental measures necessary to compensate the local community for the disadvantages of having a successful airport in their back gardens.

9.105. ACTS did not believe that MA PLC had pursued a course of conduct against the public interest. In fact it could be argued that the opposite might have been true. There was so much consultation with all interested parties that it could be said that too much notice was taken of airlines and pressure groups. MA PLC was responsive and always sought to meet the reasonable requests of the AOC. It was continually upgrading and improving the passenger areas. MA PLC took its 'Customer Care' and 'Good Neighbour' policies seriously.

Confederation of Shipbuilding and Engineering Unions

9.106. The Confederation of Shipbuilding and Engineering Unions (CSEU) told us that over the last five years Manchester Airport had initially experienced strong overall growth which had slowed markedly towards the end of the period. The combined effects of economic recession, high interest rates and the Gulf War had reduced air traffic world-wide in 1990/91 and the airport had experienced the first year-on-year decline in passenger throughput in over a decade. The CSEU expected that the effects of the recession on the industry were likely to continue for some time.

9.107. The CSEU said that improvements in efficiency had been at the forefront of union and management efforts at Manchester Airport in recent years. Considerable weight had been placed on the need to control costs in all areas, especially in the area of employee productivity. Examples of the co-operation between unions and management were the introduction of a multi-skilling agreement which covered workers in the engineering area and a flexibility agreement with workers in the baggage-handling area. This initiative had increased productivity in the engineering section.

9.108. Manchester Airport operated under various constraints which could limit the scope for increased efficiency in certain areas. One major constraint was the statutory requirement for specific safety-related staffing levels. For example, the ability of MA PLC to achieve economies in the provision of airport fire services was overridden by the paramount requirements to meet statutory safety criteria. Nevertheless, employee costs in this area in 1990/91 had been held at the 1989/90 level by reducing overtime. Cost containment on this scale had not, however, been possible in the area of security, mainly because of additional directives from DTp following the Lockerbie disaster.

9.109. Significant productivity gains had been made in the engineering section since the MMC's 1987 inquiry. These were now being consolidated through the multi-skilling productivity initiative which would permit greatly increased flexibility of skills application between different categories of staff. Further proposals to make changes in working arrangements had been agreed by the unions, in particular in respect of the concept of annualised hours.

9.110. The CSEU told us that a review of the engineering section had defined four major objectives whereby it would become a self-financing section; a profit-generating business; recognised as environmentally conscious; and a European authority on airport engineering renowned for its efficiency and cost-effectiveness. Both MA PLC and its employees were committed to providing a high quality of service and performance to airport users. The unions recognised that such a level of service was vital if new airlines and passengers were to be attracted to the airport.

9.111. MA PLC was aware of the importance of making its achievement of performance targets known to interested parties. Accordingly reports were made available to the Airport Consultative Committee and discussed at the committee's meetings.

9.112. The CSEU noted that, on the basis of currently agreed passenger forecasts, Manchester Airport's existing terminal capacity of 11.5 mppa would be exceeded in 1993/94. Furthermore, scheduled passenger services were expected to account for a growing share of future traffic. Because scheduled traffic generally had lower load factors than charter traffic, the number of aircraft movements was forecast to increase more rapidly than the rise in passenger numbers. The airport's runway capacity was expected to be exceeded in the late 1990s.

9.113. Unless the current capacity constraints were lifted, Manchester Airport would be unable to meet the increased demand. MA PLC was, accordingly, investing in the construction of Terminal 2 and planned to invest in a second runway. MA PLC would, however, be able to finance these investments only if airport charges were raised in real terms during the reference quinquennium. Its ability to finance investment was currently restricted by the existing price control formula which imposed a reduction in real charges by, on average, 1 per cent per annum.

9.114. The past financial performance of MA PLC had been satisfactory but the prospects for the future were less certain. MA PLC faced major challenges arising from the fact that its charges were controlled. Without a price control formula of at least RPI+1, MA PLC would not be able to finance the capital investment necessary to overcome the existing terminal and runway constraints, ensure the continued growth of the airport, achieve an adequate return to shareholders and maintain a reasonable level of profitability.

National Association of Local Government Officers

9.115. The National Association of Local Government Officers (NALGO), which represents members in administrative and clerical, middle management, general manager and director positions, told us that Manchester Airport was a great asset to the North-West. It was a provider of jobs not just on-site but elsewhere, by virtue of the catalytic effect it had on the regional economy.

9.116. NALGO believed it was a great credit to MA PLC that it had been able to achieve such success despite limitations on public sector borrowings, the heavy regulation of international route licences and strict limits on pricing. An easier option which MA PLC had rejected would have been to maximise profits at the expense of service standards, good neighbour policies and investment necessary to meet future demand.

9.117. The investment required now would be the key to ensure the future growth of the airport. The alternative would be to reach capacity and stand still. It was with this in mind that NALGO hoped we would recognise that MA PLC should be allowed to build up reserves to ensure the future prosperity not only of the airport, but the North-West region. It was NALGO's view that this could only be achieved if MA PLC had the ability to increase airport charges at the rate of at least RPI+1.

Transport and General Workers' Union

9.118. The Transport and General Workers' Union (TGWU), which represents over 80 per cent of MA PLC's employees, told us that this concentration of trade union membership was not exceptional but was perhaps the highest of any European airport operating company. The TGWU said that it had established clear-cut procedural agreements with all of the airport's major companies but particularly with MA PLC. Using these procedures it had successfully established terms and conditions of employment which resulted in relatively low levels of staff turnover. This was significant bearing in mind the need to establish and maintain a rigorous security culture amongst all levels of airport activity.

9.119. The TGWU said that the provision of services of the highest possible standard to Manchester Airport's users had always been a key factor in its philosophy. Behind this was the need to ensure long-term employment at reasonable rates of pay and with decent conditions for members. It had consistently encouraged its members to co-operate with MA PLC over the introduction of new technology and revised work methods, thus demonstrating its commitment to high-quality service standards. Only if the relationships which had been carefully crafted were allowed to mature would MA PLC continue to provide high-quality customer services, in the safety- and security-conscious cultures which had been developed.

9.120. The TGWU had lent its support to MA PLC's efforts to establish Manchester Airport as a major international airport which would dominate the United Kingdom aviation industry outside the South-East. The TGWU also endorsed the further development of the airport to become a world hub and the associated policy of seeking investment opportunities in airport-related activities and ventures.

9.121. MA PLC had a well-deserved reputation for providing secure employment and for pursuing good-quality employment policies. Initiatives such as the 'Fair Deal' programme on equal opportunities, improved communications and training programmes had been welcomed and supported by the TGWU. New technology and techniques had been introduced without undermining or damaging industrial relations because MA PLC had discussed and negotiated their effects with the TGWU.

9.122. This industrial harmony had probably been damaged, perhaps seriously, by the CAA requirement that the existing ground handling system be replaced and by the subsequent creation of RHSL to compete for baggage-handling contracts. Further restrictions on MA PLC, either of a financial or structural nature, which could force it to alter its employment strategies could have far-reaching consequences. Reduced job security and fewer career opportunities would lead to a less committed workforce, a higher turnover of labour and a likely worsening of services to the customer.

9.123. The TGWU and MA PLC had committed significant resources to ensure the best possible industrial relations and indeed only once in the past five years had these broken down. A dispute over rostering had lasted from 1 December to 16 December 1989. There had been considerable disruption of

schedules and the airport had been completely closed for a period of six days. Undoubtedly this dispute had seriously damaged the airport's reputation and the TGWU had taken urgent steps to encourage MA PLC to review its disputes procedures. The result provided for compulsory reference to ACAS. Since that time there had been no further disruption or serious disagreement.

9.124. The TGWU said that because it was concerned for the interests of its members, it recognised that unless MA PLC achieved a high level of customer satisfaction, Manchester Airport would not continue to grow. This would undermine employment security and opportunities.

9.125. The TGWU had co-operated with MA PLC to improve productivity and performance. A major reorganisation of the handling services section had brought about significant changes through the removal of demarcation, the introduction of greater flexibility, and the extension of self-supervision and flexibility in shift start and finishing times. These had led to a cut in overtime and the introduction of part-time employment.

9.126. TGWU members always strove to give the best possible service and this had been confirmed by the number of passengers who had taken the trouble to write in and express satisfaction, compared with the small number of complaints.

9.127. The view taken in the 1987 report that an airport's customers were primarily the airlines was, in the TGWU's opinion, mistaken. While there was no evidence to show that airlines might abandon an airport because of falling service standards, there was clear evidence that poor service drove passengers away. If passenger numbers fell, airlines would close routes and transfer to other airports. Manchester Airport was currently the fastest growing in Europe, not because it was the first choice of airlines-BA, for example, had made it clear that its preference would be Birmingham-but because it was greatly liked by passengers.

9.128. The TGWU argued that a system which operated in favour of airlines' interests was flawed. If airlines were seen as an airport's primary customers rather than the passengers, then airline interests would equate to the public interest. It would then follow that any acts or omissions by an airport operator directed against an airline could be deemed against the public interest, even if that airline damaged the airport operator's reputation and drove passengers away.

9.129. Unless some measures were adopted to ensure that airlines passed on to passengers any savings they achieved as a result of the CAA limiting increases in airport charges through the RPI-X formula, airport charges should be determined by the market. Preventing airport operators from maximising their income without forcing airlines to pass on the benefits to passengers provided the airlines with a cushion against the need to seek their own productivity improvements. For example, almost all savings which would result from baggage handling being put out to tender would accrue to airlines. Some airlines would simply pocket the savings with no benefit to passengers. The TGWU urged us to recommend that savings achieved by airlines should be passed to passengers in the form of reduced fares or improved customer care.

Handling agents

Manchester Handling Ltd

9.130. Manchester Handling, which is owned jointly by Gatwick Handling and Aer Lingus, provides a range of handling and supervisory services to airlines, including passenger check-in and escort, ramp and aircraft loading supervision, aircraft cleaning services and VIP lounge facilities.

9.131. Manchester Handling told us that it had regularly experienced difficulty in supervising MA PLC's baggage loaders. Joint efforts had, however, been made to solve this problem and MA PLC was gradually taking responsibility for the correct loading of aircraft. Mishandled baggage was a problem at Manchester Airport, in particular for charter airlines which flew to numerous destinations.

9.132. Manchester Handling was required to provide and maintain a sufficient number of aircraft steps to service the airlines for which it was the agent. Only MA PLC staff, however, were allowed to position and remove the steps. Damage to the steps was a serious and costly problem which was attributable to the fact that MA PLC staff used the equipment but were not responsible for its maintenance. MA PLC had paid compensation for damage only when photographic evidence had been provided by Manchester Handling which clearly demonstrated that airport staff were at fault.

9.133. Manchester Handling estimated that it could, if allowed to do so by MA PLC, provide ramp handling services at 20 to 30 per cent below current charges. It could also provide a superior quality of service.

9.134. Manchester Handling drew our attention to the AOC's 1990 complaint to the CAA, in which the AOC had argued that MA PLC should allow at least three ground handling agents to operate at Terminal 1, with the choice of agents to be determined by way of a competitive tender. Manchester Handling did not accept the argument that permitting more than one handler to operate on the apron at Terminal 1 would cause serious congestion problems. No additional vehicles and equipment would be required to service the existing aircraft traffic. Moreover, parking arrangements for vehicles and equipment could be improved. Manchester Handling told us that at least six handlers formerly operated in the baggage hall at Heathrow's Terminal 3 which had four belts. The hall, which was somewhat larger than those at Manchester Airport, was congested but the handlers were able to function. Three agents could operate in the baggage hall at Terminal 1B and two at Terminal 1A.

9.135. The CAA had appeared to find in favour of the complaint but had stopped short of imposing conditions following receipt of an undertaking from MA PLC to invite all interested parties to register as potential tenderers for the sole ground handling contract at Terminal 1. Manchester Handling had registered its interest in completing a tender but was subsequently excluded from the tender process by MA PLC on the grounds that it was inexperienced in ground handling. At the same time, Manchester Handling was awarded a new passenger handling contract for Terminals 1 and 2, with effect from 1 April 1992, with the right to provide ramp handling in Terminal 2 from its opening in April 1993. Although Manchester Handling had been given no opportunity to acquire ramp handling experience at Manchester Airport, it had the immense experience of its shareholders to draw upon in terms of expertise, manpower and equipment. It was illogical that Manchester Handling would be able to offer ramp handling services in Terminal 2 but not in Terminal 1. It would be in the position of having to purchase equipment and employ staff to load aircraft and sort baggage in Terminal 2, while being unable to use the equipment and staff in Terminal 1. RHSL would have the commercial advantage of being able to utilise equipment and possibly manpower at both terminals.

Ogden Aviation (UK) Ltd

9.136. Ogden Aviation, the holding company of Ogden, offers ground handling services at Gatwick, Birmingham, Glasgow and Prestwick Airports in the United Kingdom, as well as at a number of airports in Germany, Spain and the Netherlands. It was short-listed by MA PLC for the Terminal 1 contract but withdrew before the final stages of the competition.

9.137. Ogden was of the opinion that when MA PLC was required to put the contract for ground handling services out to tender, it designed the tender document in a way which dictated that the winner would be RHSL. The prospect of not being able to retain ground handling services would have caused grave industrial relations and redundancy payments difficulties for MA PLC. Accordingly, it had drawn up the tender in such a way that only a subsidiary company dependent upon MA PLC for its financial support could win the contract. The ties and constraints imposed by MA PLC would have made it impossible for a third party to operate effectively or profitably.

9.138. Ogden said that, in terms of being able to control the business, the tender allowed for little management initiative and would stifle the normal relationship between customer and supplier. In normal circumstances in the ground handling business, the relationship between customer and supplier was based on a contract. Market forces dictated the financial arrangements and, because competition usually existed, the sanction for failure to provide an adequate service was the loss of the contract.

9.139. MA PLC's handling contract provided for a monopoly. Unnatural safeguards had, therefore, to be built into the tender specification which made normal operation of a business more difficult. For example, a system of onerous penalties, which would threaten the financial success of the business, had to be incorporated to maintain service standards. For a subsidiary of MA PLC, however, such financial penalties should cause no anxiety because any penalty would be notional and the trading results of both MA PLC and the subsidiary would be consolidated in a single balance sheet.

9.140. Ground equipment was an integral part of the ground handling business and the ability to procure, operate and maintain it effectively was part of the recipe for competing successfully. The tender document required the successful tenderer to assume full responsibility for equipment which was judged by MA PLC to be good or fair. The successful tenderer also had to accept MA PLC as its maintenance contractor and was tied to an excessive fixed leasing payment, irrespective of usage.

9.141. In the longer term the tender document gave no comfort or indication of how the business would develop when Terminal 2 was in operation. At least three companies would provide ground handling at Terminal 2 whilst only one would operate in Terminal 1. Ogden did not believe that this was either realistic or sustainable.

9.142. MA PLC had gone through the motions of a tendering process, designed a tender to suit its purpose, but failed to find a willing partner in the charade. Had the tender document been approved by the CAA with the help of an agency experienced in the field, a fairer document could have been produced and the competitive tendering process would have been more realistic. The actual tender was not a tender to offer full independent ramp handling at a price in a customer/supplier relationship: rather it was a monopoly tender to act as a contractor on behalf of MA PLC.

Servisair Ltd

9.143. Servisair told us that MA PLC acted against the public interest in continuing a monopoly baggage and cargo ramp handling service in Terminal 1.

9.144. Servisair had not participated in the tender process because it opposed the principle of a monopoly supplier; airlines should have a choice of supplier. Servisair was pleased to have been re-appointed as a passenger handling agent and to have been given the right to provide baggage and cargo ramp handling in Terminal 2. It objected, however, to the supplier in Terminal 1 being able to compete with the Terminal 2 suppliers if it retained a monopoly in Terminal 1. All passenger agents would be able to offer this service in Terminal 2, whereas only RHSL would be able to provide ramp handling in Terminal 1. RHSL would have the advantage of a protected business in Terminal 1 when it sought business in Terminal 2. This placed it in an unfair trading position.

9.145. Servisair did not consider that any limitation on increases in operational charges at Manchester Airport should be compensated for by MA PLC increasing other charges, such as rentals for accommodation, above the RPI. The principle of market rental levels for accommodation was not applicable at Manchester Airport as there was no competitive market available.

Sigma Aviation (UK) Ltd

9.146. Sigma told us that it had withdrawn from the bidding process for the ground handling contract at Manchester Airport for a number of reasons. The time given to prepare the bid, six weeks, had been insufficient. Although this had subsequently been extended, Sigma had already withdrawn from the tender. The contractual terms and conditions were commercially unacceptable. Sigma estimated that 12 to 15 per cent of turnover would be paid to MA PLC in licence fees, plus fees for the use of fixed and ground handling equipment.

9.147. Concurrent with the tender process MA PLC had also interviewed prospective companies for the four passenger handling licences at Terminals 1 and 2. At the time of the prequalification for the ground handling licence, the shortlist for the passenger handling licences had been reduced to six companies,

including Sigma, which was advised by MA PLC that no company would be awarded both a passenger handling licence and the ground handling licence.

9.148. The ground handling licence was for the provision of handling services in Terminals 1A and 1B, for a period of five years. Services in Terminal 2 were to be the subject of separate arrangements. Sigma regarded the ground handling licence as a short-term opportunity, and its preference was for the establishment of an operation that would represent a long-term commitment to Manchester Airport.

9.149. After careful consideration of the circumstances, Sigma decided to withdraw from the tender process for the ground handling licence. Subsequently, Sigma was awarded a passenger handling licence at Terminals 1 and 2.

Other airport users

Monarch Aircraft Engineering Ltd

9.150. Monarch Engineering, which carries out aircraft engineering activities at Manchester Airport, was concerned about the airport's engine ground run test facility and the level of charges imposed by MA PLC for the use of the facility.

9.151. Monarch Engineering said that the facility, use of which was mandatory, had been commissioned in 1990 by MA PLC without any prior consultation with users regarding its suitability or positioning on the airport apron. Monarch Engineering welcomed the idea of the facility but believed that it was technically deficient. In particular, Monarch Engineering and various airlines had experienced fluctuating engine parameters and engine surges when using the facility. These had caused the abandonment of some engine tests and were attributable in part to the fact that the facility did not face into the prevailing wind.

9.152. Monarch Engineering said that there had been no consultation regarding the charges for use of the facility. The initial hourly charges of £360 (0630-0900 and 1700-2300) and £240 (0901-1700) had been reduced to £266 and £144, but still compared unfavourably with, for example, Berlin's Tegel airport which charged £44 per hour with no time stipulations.

9.153. Monarch Engineering was also concerned that MA PLC had never accepted responsibility, from an insurance point of view, for damage to an aircraft caused by a member of the airport staff. MA PLC was reluctant at times to provide statements on such incidents when so requested. This was a long-standing problem and one which Monarch Engineering considered to be extremely unfair and costly both in terms of insurance premiums and sub-chartering to cover for damaged aircraft.

Woodcroft Air Cargo Ltd

9.154. Woodcroft Air Cargo Ltd (Woodcroft), an airfreight forwarding company based at Manchester Airport's Cargo Centre, told us that the maximum amount which MA PLC should be able to levy by way of airport charges during the reference quinquennium should be in line with, if not lower than, charges paid by tenants to MA PLC.

9.155. Woodcroft needed to operate from within Manchester Airport in order to be able to provide a proper service to its customers. Freight forwarders based at the Cargo Centre had, since 1985, been charged at crippling levels for services, rents and rates. MA PLC had a monopoly in respect of the provision of heating and lighting, office cleaning, security and staff car parking. Woodcroft described the provision of security services at the airport as non-existent.

Other representative groups

Aircraft Owners and Pilots Association

9.156. The Aircraft Owners and Pilots Association (AOPA), which represents corporate and private owners and pilots operating in the general aviation sector, told us that general aviation accounted for some 80 per cent of aircraft on the United Kingdom civil register and covered all aspects of civil flying other than that conducted by the airlines. In the last ten years the number of aerodromes available for general aviation use had remained unchanged and many were under threat of closure or restriction for development or other reasons. During the same period, the number of hours flown by general aviation aircraft had nearly doubled.

9.157. MA PLC had stated in its 'Development Strategy to 2005' document that runway congestion had led to a ban on certain categories of general aviation at peak hours. MA PLC opposed general aviation activity and had stated that, in line with Board policy, it was seeking actively to discourage general aviation at the airport. It had also refused requests to reduce landing fees for aircraft during quiet times. This had placed a severe financial constraint on flying training organisations.

9.158. MA PLC had relented and was reportedly allowing helicopter training. It had also prepared a grass runway, though this was not currently allowed to be used. The AOPA was still concerned that airport charges might be used to reduce use of the airport by general aviation. The nearest alternative airfield in the Manchester area was Barton, itself under threat from developers. Regard should be paid to the need for general aviation facilities in the whole area. The AOPA pointed to the United States of America where all sectors of air transport co-existed safely.

Air Transport Users Committee

9.159. The Air Transport Users Committee (AUC) told us that Manchester Airport had a vital part to play in the development of an efficient and competitive United Kingdom air transport industry which extended far beyond its contribution to local and regional economies. The AUC suggested that our overall objective should be to ensure that a just balance was found between the short-term interest of keeping charges as low as possible, and the longer-term requirement that MA PLC be sufficiently profitable to stimulate the capital expenditure required to keep pace with growing demand.

9.160. The AUC described the RPI-X formula as unsatisfactory. The RPI was only an approximate indication of the general cost of living, it was subject to abrupt changes and it should not be a basis for decisions about the levels of airport charges. There was no valid reason why airlines should be asked to pay higher charges when the airport operator had suffered no corresponding increase in costs. Nor did the formula take account of whether the base level of charges was too high, or of the economies of scale which should result from increased traffic, even without the incremental increases resulting, for instance, from the commissioning of a new terminal.

9.161. The AUC knew that the MMC favoured RPI-X and it was also aware of the disadvantages of regulating on the basis of ROR. As the MMC had accepted in their BAA report, however, an approach which combined limits on ROR with regular scrutiny of an airport's cost base would mitigate the worse of these drawbacks and would be preferable to the existing system if no better way could be devised.

9.162. Irrespective of the formula proffered, the AUC urged us to explore how far MA PLC should be constrained in its freedom to distribute charges between different types of aircraft and passenger. The AUC also argued that the formula should cover not only airside charges but all charges which fell on airlines, such as charges for ticket and check-in desks, crew rooms and staff car parking, as well as those levied on other commercial organisations which used the airport's facilities. The absence of control over these charges, which inevitably were passed on to passengers and cargo shippers, was not only illogical but could discriminate between the airport's customers and distort competition.

Association of British Travel Agents

9.163. The Association of British Travel Agents Ltd (ABTA), which represents some 7,000 travel agent outlets and 650 tour operators, told us that over the years it had enjoyed a harmonious relationship with MA PLC. MA PLC regularly hosted the local ABTA Travel Agent and Tour Operator Regional Meetings at the airport, and participated in ABTA conferences; ABTA was represented on the Airport Consultative Committee; and there were other consultations on items of mutual interest.

9.164. ABTA had long supported a policy of passengers being able to travel from the airport of their choice and thus would support improved facilities at any airport. It suggested, however, that future changes at Manchester Airport should be in line with those agreed recently for BAA's South-East airports in terms of an RPI-X formula for airport charges. The treatment of security costs should also be similar.

Cheadle & Gatley Ratepayers' & Electors' Association

9.165. The Cheadle & Gatley Ratepayers' & Electors' Association said that so long as airport charges were at a level which allowed MA PLC a reasonable amount of profit, airport customers should be satisfied. Residents who lived close to Manchester Airport suffered from aircraft noise and the cessation of night flights would reduce this problem.

Cheshire Landscape Trust

9.166. The Cheshire Landscape Trust wished to place on record its recognition of the lead taken by MA PLC in matters relating to the environment and landscaping. Landscape policy should be included in the Community Covenant Scheme which MA PLC intended to introduce.

General Aviation Manufacturers and Traders Association Ltd

9.167. The General Aviation Manufacturers and Traders Association Ltd (GAMTA) told us that general aviation, and in particular business aircraft operations, using Manchester Airport were included in the overall charging system applied to the airlines. GAMTA members did not use the main terminal for the passengers but were charged as if they did.

9.168. Very high rentals and landing fees provided MA PLC with a profit margin of between 30 and 40 per cent on turnover. MA PLC had argued that this was required for future development. GAMTA questioned whether MA PLC had the right to charge several years in advance to resident operators which might never use the proposed facilities. It suggested that it would be fairer if funds were collected in arrears from the airline industry as this would allow charges to be reduced to a more reasonable percentage level.

9.169. GAMTA was concerned that general aviation operators might, as had happened in the past, be squeezed out of Manchester Airport altogether on the grounds of slot allocation, runway capacity and airspace control.

Greater Manchester Transport Action Group

9.170. The Greater Manchester Transport Action Group (GMTAG) told us that MA PLC had embarked on a costly capital investment programme to provide facilities for forecast growth in passengers. MA PLC had not, however, demonstrated by way of an environmental impact assessment, as it was required to do by EC Directive and Planning Regulations, that projects such as the new terminal and second runway were environmentally acceptable. The GMTAG doubted the economic viability of the projects.

9.171. The environmental impact assessment should have been subject to public consultation before planning consent was given. It would be premature to impose increased charges to finance the airport's expansion. Assuming that the capital programme proved to be environmentally and economically

acceptable, the GMTAG suggested that the pricing formula should be levied on airport users and not fall upon district councils as shareholders and passed on to Community Charge payers.

Guild of Business Travel Agents

9.172. The Guild of Business Travel Agents (GBTA) represents 41 travel agents which together account for over 75 per cent of United Kingdom agency-generated business traffic. The GBTA told us that it wanted Manchester Airport to expand to include additional terminal and runway capacity. The formula in respect of charges for the reference quinquennium should be RPI-3. A more penal formula would inhibit the airport's development and would not be in the interests of the travel industry. The GBTA was not aware that MA PLC had pursued any course of conduct against the public interest.

Knutsford Civic Society

9.173. The Knutsford Civic Society (KCS) expressed its concern that the concept of privatising Manchester Airport had failed to result in a proper private enterprise. Local authorities which were shareholders of MA PLC apparently had no right to comment on how it conducted its business.

9.174. The KCS's principal area of concern was the fact that instead of having to improve financing as in a true private enterprise, MA PLC obtained its capital at advantageous rates of interest, chiefly through the local authorities.

Knutsford and Mobberley Joint Airport Action Group

9.175. The Knutsford and Mobberley Joint Airport Action Group (the Action Group) is one of four community groups which sit on the Airport Consultative Committee. The Action Group told us that this committee had an in-built pro-airport majority and acted as a rubber stamp for MA PLC's policies. The commercial advantages gained by MA PLC because of this loose system of control were against the public interest, especially as the major airports in the South-East came under direct Government control.

9.176. The Action Group told us that airports with the largest passenger throughput did not necessarily generate commensurate revenues and profits, because the type of passenger traffic and the way airports were managed varied widely. Manchester Airport was ranked 50th in terms of passenger throughput world-wide, but 8th in terms of net profits. It had a unique blend of tour, domestic and scheduled passengers which, when coupled with its position as the most significant United Kingdom airport outside the South-East, had resulted in an abuse of the public interest.

9.177. Income from duty-free sales and concessions appeared to represent such a significant amount of MA PLC's turnover that an investigation of concession rents and duty-free prices was necessary to see how these compared with those of other United Kingdom airports. Traffic income figures plus complaints from airlines had already caused the CAA to order baggage-handling contracts to be put out to tender. This procedure had resulted in an internal bid winning.

9.178. Unrestrained growth at Manchester Airport had led to MA PLC aggressively marketing the airport in an area from Birmingham to Glasgow and Edinburgh. It even marketed itself as an alternative to the London airports. The absence of a national airports policy had simply meant that MA PLC was able to grow at the expense of other regions, the requirements of which were ignored. The Action Group believed that the benefits and disadvantages of airports should be shared.

9.179. MA PLC's majority shareholder, the City Council, had such an influence over a number of policy areas that the alleged separation between the two was non-existent. MA PLC's expansion was primarily funded from cheap loans provided from the PSBR. Indeed, successful lobbying had influenced the Government to raise the PSBR allocation for the United Kingdom's regional airports from £20 million to a maximum of £80 million per year, solely to finance construction projects at Manchester Airport. This obviously reduced the finance available for other local authority-owned regional airports and resulted in a concentration of development at Manchester Airport. MA PLC had been able to maintain and increase its

dividend payment to its shareholders over the last few years, when its profits should have enabled it to compete for private sector loans, thus negating the need for PSBR money.

9.180. The shareholding councils were also those that controlled the Greater Manchester Passenger Transport Authority (GMPTA), which in turn funded and controlled the Greater Manchester Transport Executive. The Executive was responsible for establishing the financial case for building a rail link for Manchester Airport as a 45:55 joint venture between the GMPTA and North West Regional Railways. The GMPTA shareholding was provided out of local authority funds and was a direct subsidy to MA PLC. BAA had announced plans for a Paddington-Heathrow rail link at a cost in excess of £540 million, thereby proving that it was possible for companies in the private sector to fund similar projects entirely from their own resources.

9.181. The Action Group was also concerned that the City Council had responsibility for planning control over the airport's operations area. Manchester Airport was in the Manchester green belt. Using compulsory purchase orders, the City Council had purchased agricultural green-belt land, which it then allowed MA PLC to develop commercially. Normal planning procedures were circumvented and landowners adjacent to the airport whose land was compulsorily purchased did not receive a fair price.

9.182. The City Council had also recently asked the Local Government Boundary Commission to realign the boundary between itself and the adjoining Borough of Macclesfield. This proposed change was a cynical manoeuvre to increase the area under its control which was prompted by the fact that MA PLC's preferred option for a second runway was on land which came under Macclesfield Borough Council's planning control.

9.183. The Action Group opposed a second runway and was keen to ensure that any planning application went to Macclesfield Borough Council. A second runway would increase noise and air pollution and road traffic, green-belt and amenity land would be lost and aviation safety problems would be exacerbated.

9.184. The RPI-X formula should apply to MA PLC in order to provide for a controlled, realistic rate of return, and the provisions of the Airports Act should be amended to remove from councils which were shareholders in public airport companies the power to lend, or to guarantee loans.

9.185. The MMC should request the Secretary of State for the Environment to ensure that the present green-belt proposal number 4 of the Greater Manchester Greenbelt Local Plan was amended to reflect the existing situation in the locality. The airport's operational area should be removed from the green belt as it no longer served a green-belt function. The MMC should also ask the Secretary of State to preserve the existing boundaries between the City Council and the Borough of Macclesfield. The Minister for Aviation and Shipping should be asked to designate the airport for the purposes of sections 78 and 79 of the Civil Aviation Act 1982, which would allow for the regulation and control of noise and vibration connected with aircraft landings and take-offs.

Manchester Chamber of Commerce and Industry

9.186. Manchester Chamber of Commerce and Industry (MCCI), the largest business association in the North-West, felt that as it was not in possession of the necessary financial information, it was not qualified to suggest actual levels of airport charges. It did believe, however, that if inflation was to be reduced, the increase in charges should be kept below the increase in the RPI. MCCI was disappointed that there was still a monopoly baggage handler in Terminal 1 and particularly that the newly-appointed handler was a subsidiary of MA PLC.

Ramblers Association

9.187. The Ramblers Association (the Association) told us that enjoyment of the countryside was already being impaired by aircraft noise at Manchester Airport. Any increase in airport traffic would further undermine the peace of the surrounding area. The Association questioned whether present or

projected traffic levels necessitated another runway, or whether consideration had been given to the effect of aircraft exhaust gases on the surrounding countryside.

Styal Action Association

9.188. The Styal Action Association (SAA) was formed in 1971 to safeguard the environment and quality of life in the district around Manchester Airport, and its membership is concentrated on the village of Styal and the conurbation of Wilmslow and Alderley and other areas affected by the airport.

9.189. The SAA told us that Manchester Airport was closer to a larger concentration of housing than any other airport in Europe. From 1 April 1992, a system of supplements to landing fees would apply to aircraft which did not adhere to the specified routes on take-off. This would be similar to the arrangements for aircraft which exceeded agreed noise limits. The SAA was concerned that in setting charges we did not restrict MA PLC from imposing these supplementary fees.

9.190. The SAA believed that the expansion of Manchester Airport derived from the willingness of MA PLC to accept a higher level of night flights from the holiday charter trade than any other United Kingdom airport. Consequently charter carriers with a base at Manchester Airport could expand their operations at that airport. This would be detrimental to other airports and constraints should be placed on the expansion of Manchester Airport so as to encourage other regional airports.

9.191. The SAA submitted that the level of road traffic indicated a need for urgent restraint of Manchester Airport's activities and operations. The existing road infrastructure was already strained and there were major peak-time hold-ups on the M56, A538 and adjacent roads. Nor would the scheduled rail link improve matters because it would take only 4 to 7 per cent of passengers and no freight. A worrying consequence of the high road usage was a considerable air pollution problem in the nearby areas which could only worsen. There was also a lack of adequate parking space which had led to a number of unregulated commercial operations in the vicinity, including residential areas, with consequential disturbance night and day.

Airports

Blackpool Airport Ltd

9.192. Blackpool Airport Ltd (Blackpool) told us that the demand for international passenger movements in the United Kingdom, particularly on long-haul routes, was concentrated on the London airports system, with Heathrow and Gatwick continuing to dominate in respect of international interline systems. With the level and range of destinations available from Heathrow, this hub system was eminently suited to passengers from regions in the United Kingdom which could not sustain direct services.

9.193. The expected increase in demand, coupled with the accompanying difficulties of airspace and airport congestion which this could create in the South-East, meant that the increased use of Manchester Airport as an international hub for Northern and Central England was to be encouraged. The interests of air passengers within the Northern gateway catchment area would be most efficiently served if a greater range and frequency of services were available at Manchester Airport.

9.194. Blackpool said that Manchester Airport had the support of the air passengers generated in the region. MA PLC's development strategy involved plans to increase capacity at and improve access to the airport. More international scheduled routes and long-haul charter operations would help to satisfy the needs of air travellers in the North of England and allow many inefficient surface journeys to the London area airports to be avoided.

9.195. In order to finance the huge capital costs, MA PLC relied to a great extent on central Government capital allocation. It seemed reasonable that MA PLC should be able to levy fees sufficient to meet the debt charges incurred on Government borrowing, particularly over the next five years which would see the highest level of capital investment with the completion of Terminal 2 and the construction of a second runway.

9.196. Blackpool told us that Manchester Airport currently operated efficiently and generated a profit. The future level of fees had to recognise the growth in traffic which the expanded facilities would generate and should not deter the travelling public and the airlines from using Manchester Airport. MA PLC had to be able to demonstrate that a charge determined by, say, RPI-1 would guarantee an adequate return on investment without disadvantaging the travelling public.

9.197. Blackpool told us that its role was complementary to that of Manchester Airport. Its own development plans were aimed at providing a better range of short-haul scheduled and charter services for the air passengers of Central and West Lancashire. It also intended to continue to provide for general aviation needs and support for the offshore gas industry. In addition to promoting services to destinations in continental Europe, London, Scotland and Ireland, Blackpool was keen to see the success of the newly-introduced feeder service to Manchester Airport, from where a greater range of long-haul services would be available. In this respect the hub facilities at Manchester Airport were supported by passengers from Blackpool's area. MA PLC had been very co-operative in jointly promoting the new service and had recognised the benefits to the air travellers of Lancashire. Blackpool did not consider that MA PLC's conduct had operated against the public interest.

Leeds-Bradford Airport Ltd

9.198. Leeds-Bradford Airport Ltd believed that MA PLC should be able to levy charges which reflected the operating costs of Manchester Airport, plus provision for development and a reasonable return on investment. MA PLC should be able to recover in full costs attributable to DTP aviation security directives. The present formula was inequitable in that respect.

Others

Esso UK plc

9.199. Esso UK plc (Esso), which supplies aviation fuel at Manchester Airport, explained that throughput charges were levied by MA PLC in respect of fuel supplies. These were negotiated annually with MA PLC and took into account all relevant commercial considerations. Esso was satisfied that, within its own field of interest, MA PLC had not operated against the public interest.

ICI Chemicals & Polymers Ltd

9.200. ICI Chemicals & Polymers Ltd (ICI) told us that it was committed to supporting the continued expansion of Manchester Airport as an international airport. MA PLC was assiduous in consulting the local community and industry about how this expansion should occur. ICI had recently given its general support to MA PLC's Draft Development Strategy which included a proposal for a second runway.

9.201. While the RPI-X formula was one approach for regulating MA PLC, ICI had a slight preference for an RPI times X formula, in which the value attributed to X was less than 1, because this would give MA PLC a more certain productivity target to aim for. Both alternatives would, however, be acceptable to ICI as they both required MA PLC to make productivity improvements over the reference quinquennium. ICI had no reason to believe that MA PLC had operated against the public interest during the current quinquennium.

Merseyside Development Corporation

9.202. Merseyside Development Corporation (MDC) told us that it supported the growth of Manchester Airport and regarded the availability of quality air services as an essential component in the economic health of the region. MDC believed, however, that it would be advantageous from the point of view of the region and the air transport business if a more regional perspective was evident in MA PLC's growth

strategy. Specifically MDC thought that Liverpool Airport could and should be regarded as an integral element in the strategy for developing the business.

P & C Casey Ltd

9.203. P & C Casey Ltd (Casey), a construction company, told us that Manchester Airport was an indispensable facility to further the business base of North-West England. Casey described the airport as a professionally-administered operation which required sufficient funding and cash flow to allow it to expand to meet the needs of the region. The increase in the maximum level of airport charges should reflect either the increase in the level of inflation or the average rate of increase set by other international airports. Casey did not believe that MA PLC had acted against the public interest.

Shell UK Ltd

9.204. Shell UK Ltd (Shell), an aircraft fuelling operator at Manchester Airport, told us that it was not aware of any course of conduct by MA PLC which had operated or might be expected to operate against the public interest. Shell had no view on the level of airport charges, other than to observe that one way or another such charges were ultimately borne by the travelling public or by cargo.

Stockport Business Venture Ltd

9.205. Stockport Business Venture Ltd told us that MA PLC had not operated against the public interest. On the contrary, it believed that the management of MA PLC had pursued a progressive policy over a number of years.

Trafford Park Development Corporation

9.206. Trafford Park Development Corporation (Trafford Park) made it clear that it had relatively limited knowledge of the operations of Manchester Airport. Trafford Park said that it had access only to public documents and to media comment. Its views, therefore, had to be taken in that context.

9.207. Manchester Airport was a vital asset to the economy of the region. Although only the third largest airport in the United Kingdom, its accessibility made it important for the development of Trafford Park and the Greater Manchester conurbation. It was an asset which Trafford Park was able to use to attract inward investment and was viewed as one of the most important contributors to the future of the local economy.

9.208. MA PLC should be able to set a scale of airport charges which would make it attractive and allow it to develop a network of flights and destinations that would bring the North-West into close contact with the rest of the world. There was a balance to be struck between securing sufficient income to manage and develop Manchester Airport on the one hand and making it attractive to operators on the other. This judgment had to be made by MA PLC with a clear eye on the long-term development of the airport.

9.209. It was evident that MA PLC was seeking to secure the long-term expansion of Manchester Airport by way of the development of Terminal 2, the provision of a rail link and preliminary work leading to the construction of a second runway. Trafford Park did not have sufficient information to be able to comment on whether the nature of these developments and the proposed timing were correct. It did, however, welcome MA PLC's efforts to ensure the future of the airport.

9.210. Trafford Park referred to the relationship between Manchester and Liverpool Airports. Given the proximity of the two, Trafford Park queried why they had, apparently, not acted together to maximise use of the available facilities. This might reduce the scale of investment required at Manchester Airport or defer it whilst traffic levels rose and higher income was generated.

9.211. Trafford Park expressed surprise that MA PLC had felt able to distribute profits to its shareholders over recent years, at a time when it had to cope with the massive increase in debt charges

associated with the construction of Terminal 2 and when the future of duty-free income had to be seriously at risk with the advent of the single European market by the end of 1992. These comments were made without the benefit of seeing MA PLC's business plan including its business projection and cash flow forecasts, and, therefore, were subject to the appropriate caveat.

9.212. Finally, Trafford Park noted that, whatever the outcome of the current review, it was vital that the airport should have a secure future so that it could continue to play an important role for the region.