CABINET

CIVIL AVIATION POLICY

Note by the President of the Board of Trade

My colleagues will wish to see the attached draft White Paper setting out my proposals for future civil aviation policy, which were approved, together with the White Paper, by SEP last Thursday. I am discussing the date of publication with those Ministers most concerned; but I hope that it will be possible to publish the White Paper on Tuesday, 11th November.

R. M.

Board of Trade, S. W. 1.

3rd November, 1969
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CIVIL AVIATION POLICY

DRAFT WHITE PAPER

1. Civil aviation is one of the world's fastest growing industries. The output of the industry on international scheduled services alone grew at an average rate of 17% a year over the last ten years, or more than doubled every 5 years. Part of this growth was accounted for by new airlines, with the result that the relative share of British airlines, like those of the United States, declined over this period. Nonetheless the output of British airlines on international scheduled services has been doubling every 5½ years while their output on inclusive tour charter services has grown so rapidly from small beginnings that it was nearly 20 times as great in 1968 as in 1958. Few industries can match this record of sustained expansion and look forward to continuing expansion at high rates for as far ahead as can be foreseen.

2. This remarkable growth has been the product of two main factors. The steady decline in the cost of air travel has brought it within the reach of ever-increasing numbers of people. At the same time a very rapid rate of technological change has both reduced costs and enabled larger numbers of people to be carried. The passenger-carrying capacity of the Boeing 747, which will be in transatlantic service in 1970, is at least 5 times that of the Comets which inaugurated transatlantic jet services only 11 years ago, and even larger and more economical aircraft are in prospect.

3. Other and completely new techniques of air transport will make their impact over the next decade. The Concorde supersonic airliner will be coming into service. Aircraft capable of using very short runways may play an increasing role. Looking further ahead, there is the possibility of the successful development of economic aircraft capable of vertical take-off and landing. The increase in the size of aircraft has already permitted a rapid growth of air freight traffic and with the increased use of containers this will continue to be one of the fastest growing sectors of the industry's business.

4. The contribution made by British airlines to the nation's economy depends on their continued growth and prosperity. The industry contributes directly to the balance of payments through its earnings from carrying passengers and freight. In 1968 the net foreign currency earnings of British airlines were £69 million; after allowing for the net earnings of foreign airlines from the United Kingdom, the gain to the balance of payments was £20 million. There are opportunities for making this contribution considerably greater in future. In addition there is the indirect contribution made by the airlines in attracting foreign tourists to Britain. Less measurable but no less important is the fact that the ordinary citizen can now enjoy opportunities - the Mediterranean holiday, the visit to relatives in other continents - that were until recently the privilege of a minority.
It was against this background that the Government appointed, in July 1967, a Committee of Inquiry into Civil Air Transport with Sir Ronald Edwards as Chairman and with the following terms of reference:

"To inquire into the economic and financial situation and prospects of the British civil air transport industry and into the methods of regulating competition and of licensing currently employed; and to propose with due attention to other forms of transport in this country what changes may be desirable to enable the industry to make its full contribution to the development of the economy and to the service and safety of the travelling public."

The Government greatly appreciate the valuable work done by the Edwards Committee in bringing into focus the issues that now confront the industry and in suggesting a course for its development in the coming decade. The Committee's Report, which was published on 2nd May 1969, is of outstanding quality and interest.

6. This Report confirms that British airlines have great achievements to their credit. BEA and BOAC are both held in "high esteem" by the international airline community. In spite of vicissitudes, the profit records of the state-owned airlines have compared favourably with those of most of their international rivals. British airlines have been innovators, both technically with the introduction of jet aircraft and blind landing techniques and commercially, in partnership with the travel industry, in the development of inclusive tour holidays. The Committee did not find anything fundamentally wrong in the past record of the industry but did identify some weaknesses that should be corrected for the future. In planning ahead for the seventies, the need is to make the industry still more efficient and to provide for greater flexibility so that it can meet the challenges that rapid growth and change will bring.

7. This means first dealing with those shortcomings that do exist. Productivity, for example, has been low compared not only with the United States but also with some leading airlines in Western Europe. As the Report shows, the labour productivity of BOAC and BEA, taken together, lies in the middle range of Western European performance, being surpassed by Alitalia, Lufthansa and KLM; only the relatively small airlines, such as Swissair, Sabena and Iberia appear to have significantly lower labour productivity. These comparisons suggest that considerable room remains for improvement. The industry's net foreign currency earnings, though high, have not kept pace with the growth of activity. It has also become increasingly apparent that there are weaknesses in the institutional arrangements for regulating the industry. The air service licensing system has not worked as well as was hoped when it was set up in 1960. Justified criticism has been made of the system for appeals. The basic weakness has been a lack of clarity about the objectives of civil aviation policy and a lack of suitable machinery for acting positively in their pursuit.
When the Report was published the Board of Trade invited comments from all interested parties and the Government have taken account of the many views expressed in the course of extensive and thorough consultations. This White Paper is intended to provide a new charter for the industry for the next decade, on the basis of which it can build on past strengths, correct past weaknesses and grasp the immense opportunities that lie ahead. After setting out the objectives on which the Government's proposals are based and some of the limitations on their freedom of action, the White Paper deals first with the structure of the industry, taking in turn the future organisation of the public sector, the proposed "second force" airline and the structure of regional air services. The next section deals with other aspects of economic regulation, including pricing policy, transport co-ordination, subsidies, commercial agreements and aerodrome planning. A further section deals with human relations. The concluding section sets out the Government's intentions for the future regulatory system.
I. OBJECTIVES

9. In any statement of the objectives of British civil aviation policy there is a need to strike a balance which allows the industry to plan with reasonable confidence and continuity, without imposing a crippling rigidity. There is also, as the Committee pointed out, a need to find a middle course between policy statements of such wide generality as to be open to almost any interpretation and those of such detail that they must inevitably produce a straitjacket within which it is impossible to adapt to changing and often unpredictable circumstances. The Report sets out a number of possible objectives for policy and the Government welcome the emphasis placed on the interests of the consumer, on the need for an economic return on investment and for rational pricing policies, on the safety of operations and on good conditions for those working in the industry.

10. In the Government's view the principal objective of civil aviation policy must be to encourage the provision of air services by British carriers, in satisfaction of all substantial categories of public demand, at the lowest levels of charges consistent with a high standard of safety, an economic return on investment and the stability and development of the industry. This objective must be set in the context of the need to help strengthen the balance of payments and contribute to the overall growth of the economy. In setting these objectives for the industry, the Government consider that the minimum of restriction should be imposed on it or on the users of its services, and that arrangements which restrain competition or innovation should be tolerated only to the extent that they are necessary to achieve the main objectives of policy. Thus, as will appear later in this White Paper, the Government favour the licensing of a second British carrier on a scheduled service route, where it can be shown that such competition would be in the public interest. Again, where the prices of inclusive tours have to be controlled, they should be set at levels no higher than is necessary to give adequate protection to competing scheduled services for which there is a genuine need.

11. The principle of the minimum of restraint on competition or innovation can, however, be applied only within the limits set by airline economics and the practical realities of international civil aviation. British civil air transport is an international industry, with well over 90 per cent of its output on international services. Here its competitive strength is crucial, and here it makes its greatest contribution both to the economy and the balance of payments.

12. The industry is, and will continue to be, highly regulated throughout the world for a number of reasons. First, there is the need for the highest standards of safety and the need to control aircraft noise. Second, there is the need for stability
and regularity of public transport services. Lastly, there is the inescapable fact that international services depend upon a network of agreements reached with other countries, defining the traffic rights which airlines may enjoy. The need, therefore, is to operate within this framework in such a way as to give the industry the biggest possible opportunities in the expanding world market. At the same time, however, this framework of regulation can be modified by international bargaining, by both the airlines and the Government. This applies to fares as well as to traffic rights. Britain's international bargaining power is far from negligible.

13. The Government will incorporate these broad objectives in a policy statement that will be published and made binding upon the future regulatory body, to guide its work over the whole span of its activities. The rest of this White Paper sets out the Government's views on the organisational changes that are needed, and the policies that should be applied, in order to reach these objectives. This more detailed exposition of the ways in which the objectives should be pursued will form the foundation of the policy guidance to the new regulatory body. The Government accept that it may become necessary to vary parts of this guidance from time to time, to give effect to any changes of emphasis that may be required.
II. THE STRUCTURE OF THE INDUSTRY

14. The Committee were of the view that, in matters of industrial structure, the wiser course is to create conditions in which change can come about naturally over time under the broad strategic guidance of the regulatory authority, rather than to lay down a rigid and detailed pattern in advance. Their Report envisages a future structure in which there will be fewer airlines than there are now. A smaller number of airlines operating in an expanding market should, through greater economies of scale and of specialisation, be better placed to increase their earnings of foreign exchange and to serve the country's transport needs. The Government agree that structural changes should be encouraged, on the broad lines proposed in the Report. Greater size should not be pursued to the exclusion of desirable competition; but both the industry and the economy are likely to be harmed by an excessive fragmentation of effort.

15. The encouragement of structural changes on the lines now envisaged calls for more purposive regulation of the industry than the present legislation and licensing system permit. The Government accept that the task should be carried out by a Civil Aviation Authority charged by Statute to act in accordance with the objectives and policies laid down in the Government's formal policy statements. The Civil Aviation Authority will be concerned with the structure of the industry both in its broader terms and, more narrowly, in its decisions on individual routes. It is the broader structural issues that are the main concern of Government policy.

The public sector

16. The public sector provides nearly 95% of the industry's output on international scheduled services and 70% of the total output of the industry. It has contributed the main weight of the United Kingdom's civil aviation effort over the years and will continue to do so. Its organisation is, therefore, of great importance. The two Air Corporations, set up in 1946 to specialise respectively in long and short haul operations, have responded successfully in different ways to the characteristics of the different markets they were designed to serve and the nature of the competition they meet. It is crucial to the future of the industry that the public sector airlines should be enabled to build on the positions of strength they have achieved in the face of growing international competition and changes in the structure of their markets.

17. The Committee considered how best this objective could be achieved. The present arrangements have created a natural rivalry between the two Corporations which has acted as a spur to enterprise and innovation, but which has also led to an independent and separate approach on some matters on which it would have been an advantage to have a more co-ordinated approach. The Committee laid great stress on the principle that no organisation should be made larger than necessary to secure the major economies of scale and specialisation and on the virtue of having more than one management group. Nevertheless, they concluded that more co-ordination was needed than could be achieved by co-operation between the two separate Corporations and they recommended the creation of a Holdings Board with full financial responsibility for and extensive powers of control over the operations of the two Corporations.
18. In considering this recommendation, it is essential first to assess the strength of the case for closer integration. The Committee discussed a number of areas in which common action might have brought considerable gains. They referred to the large investment of the Corporations in separate computer systems using entirely different equipment and in separate freight terminals and they concluded that, under the present arrangements, there was a built-in bias towards investment in separate projects of these kinds. They thought it important to ensure in future that the case for common facilities, even if they were not so completely suited to the purposes of one Corporation, should be fully weighed.

19. The Committee accepted that the indiscriminate amalgamation of engineering units might serve no purpose, but considered that BOAC and BEA might not be taking in as much of each other's work as is desirable or might become desirable in future. They, therefore, recommended continuous and effective study from an inside viewpoint. The Committee did, however, lay particular stress on the need for close co-operation in the engineering study of future aircraft and flight system requirements. Two independent project groups will each tend to think solely of the route structure of its own airline, instead of considering what balance of future aircraft types would create optimal conditions for the two airlines jointly. Consequently, the best solution for the public sector as a whole will never be sought. The Committee, therefore, recommended that project engineering should be provided as a common service for the public sector airlines. Other fields in which the Committee thought that the advantages of greater co-operation deserved close examination included industrial relations, catering, transport, training, advertising, the handling of inclusive tour charters, and hotel investment.

20. It was, however, in the crucial area of marketing that the Committee believed the greatest weakness in the present organisation was to be found. They considered that the public sector airlines should be organised so as to secure the maximum total net gain, and that inter-continental and European traffic should be considered together for this purpose. So long as each airline cultivates its separate market, so as to optimise its own interest, the best overall result may not be achieved. The Committee recognised that full consideration of this issue involved discussion about the allocation of routes between BEA and BOAC, about the use of the same aircraft on Atlantic and European flights and about relations with other European airlines - all matters of considerable complexity on which BOAC and BEA held divergent views.

21. The Government accept that these are powerful arguments calling for some change in the present organisation to provide for closer co-ordination. To help them in deciding what form that change should take, the Board of Trade undertook further studies intended primarily to throw more light on the extent of the possible advantages from centralised decision-making in the key areas of marketing through travel, and of fleet utilisation. The two Corporations co-operated fully in these studies though their views differed on certain issues. The starting point for these studies was the same as that adopted by the Committee - that the object must be to secure the best aggregate result. For example, the choice of aircraft for use on any single route must
depend largely on the choice made for use on other routes within the same system and the potential market on any particular route depends partly on the market available on other routes which connect with it. The fundamental question to be answered was whether the best results for the public sector airlines as a whole could be achieved by treating them as a single system, or as two separate systems.

22. The studies suggested that significant gains in aircraft utilisation, and thus lower costs, might be expected in the longer term if the scheduling of aircraft were planned to match a single integrated route network rather than two separate systems. The saving would arise to the extent that fewer aircraft were needed to do the same amount of work. The opportunity is provided partly by the fact that, although the average stage length on BOAC's routes is much greater than on BEA's, each corporation operates on some routes where the stage lengths are similar or are more typical of the other's. Thus some of BEA's routes might be served as well or better by BOAC's long-haul aircraft and some of BOAC's routes by BEA's medium-haul aircraft. It can now be economic to use long-haul aircraft, which are usually also larger aircraft, on relatively short stage lengths where traffic densities are sufficiently high, for at least part of their working week. This is confirmed by observation of the activities of many foreign airlines which operate over both long and short stage lengths. In the short term the gains from the integrated scheduling of BOAC's and BEA's fleets are likely to be relatively small but in the longer term, as the Committee suggested, greater gains should accrue with the procurement of aircraft to match the greater scheduling flexibility that an integrated route structure permits.

23. The use of long-haul aircraft over short stages where traffic is dense makes it possible to seek the marketing gains that can be expected to arise from offering through travel on routes joining points that are at present served separately by the two Corporations. This involves not merely a unified selling effort for connecting services, but the offer of through travel on the same aircraft, for both passengers and freight, especially between North America and continental Europe. Since the fare for the transatlantic leg of a through journey is much greater than on the European leg, a relatively small increase in the number of through passengers would more than offset the loss of a larger number of passengers on the European sector. There are two aspects to this. First, through connections by single British aircraft could compete for the large amount of traffic which at present stops en route between North American and European cities. This is a market that is currently hardly served at all by British carriers, because of the rigid geographical division of function between the two Corporations, which has deprived the British civil aviation industry of many of the advantages of our location astride the short great circle routes between great centres of population in North America and Western Europe. Secondly, although connecting services through London or another point in the United Kingdom even by the same aircraft would generally be less attractive than direct flights offered by other airlines at convenient times, the total market is so large that the small share of it which might be captured where the British carrier's timing was more convenient – or a British flight was preferred for some other reason – would still represent a further substantial gain.
24. The size in total of the possible gains can be gauged by the total value of air traffic in 1968 between the continent of Europe and the United States - £250 million for passengers and some £70 million for freight - figures which should be at least twice as great by 1973. The winning of only a modestly increased share of this would be of great value particularly at a time when BOAC, with the introduction of their Jumbo jets, will have greatly increased capacity, and when an increasing proportion of traffic from the United States is choosing to travel through gateways other than New York, at which the United Kingdom has traffic rights. As time goes on, the traffic potential via the United Kingdom on any particular route may grow more slowly than total traffic on that route, or even decline, with the progressive introduction of foreign non-stop services between more and more city pairs. Nevertheless, the potential for British participation in the market as a whole can be expected to grow with the market, as this justifies the progressive opening up of connections between more city pairs.

25. It was beyond the purpose of the studies initiated by the Board of Trade to attempt to decide which routes might be most appropriate at this stage for through operators. A full investigation and detailed planning of particular operations could be done only by the airlines over a period. Nevertheless preliminary examination by the airlines of a sample of possible routes confirmed that a substantial untapped market existed from which the revenue would be almost entirely in foreign currency. It also suggested that, even allowing for any additional operating costs on the short sector certain of these routes could be operated profitably. BEA emphasised certain disadvantages that might result from any extensive re-adjustment of routes - particularly the increased risk of late departures from the U.K. where the aircraft began their journeys in North America and some possible loss of the advantages arising from their specialisation in the techniques of marketing and passenger handling appropriate to the very large numbers who travel on short routes. The Government, however, consider that there are worthwhile gains to be had from planning and operating the route networks of the two corporations in a more integrated manner.
26. Against this background, the Government have carefully considered the Committee's recommendations for the future structure of the public sector and have consulted the Corporations and other interested organisations. The Committee concluded that they could not support an outright merger and that any form of joint Airline Committee would not be sufficiently strong and effective. They recommended the establishment of a Holdings Board which would have overall financial responsibility for all the decisions of the public sector and would be "in exactly the same position as a major Holdings Board in the private sector". At the same time, they expressed the view that the Holdings Board "should hold the reins lightly" and recommended various safeguards, including a careful balance in the membership of the Holdings Board, designed to preserve the status and identities of the Corporations (and of their Chairmen) and to ensure that the case for any measure of centralisation was "proved to a Board, where the majority of members were associated with particular airlines".

27. Both Corporations have criticised this proposal, in the form in which it was put forward, on the grounds that it would be likely to introduce a double layer of decision-making and so greatly to complicate and prejudice the commercial operations of the airline. Similar views were expressed by a wide range of other organisations and individuals. The Chairmen of the Corporations might still appear to be the "airline bosses" - as the Committee proposed - but they would be subject to the authority of the Holdings Board. There would be a danger of internal tensions which might be difficult to resolve. The Government accept the force of these objections. The Corporations have, in the meantime, greatly strengthened the Airline Chairmen's Committee, which was established in 1946, and argue that the major benefits to be gained from closer working could be achieved through this arrangement. In the Government's view, however, it would be unrealistic to expect the full potential gains from closer integration to be achieved if they depended simply on co-operation between two separate Corporations, each with its own interests to protect and each charged with the duty of earning its own return on capital.

28. In the light of these considerations the Government have considered whether it would be advantageous to proceed directly to the merger of BOAC and BEA into a single airline. The White Paper published by the previous administration in 1963 on the Financial Problems of BOAC stated that the arguments for and against such a course were, at that time, finely balanced. The evidence available, particularly on changes in the market and in aircraft performance, suggests that the balance has shifted towards integration. The Government are well aware, however, of the difficulty that is inherent in studies of this kind, of being certain that all the factors have been correctly assessed and of estimating with complete confidence the gains that might be achieved. The Government share the view of the Committee that the pace and precise degree of integration are best judged by those working within the industry and having responsibility for its performance. While it is clear that the realisation of the full benefits must depend on centralised decisions within the public sector on major planning and strategic issues, the Government share the Committee's reluctance to sacrifice the operating identities of the two Corporations.
29. The effective choice lies between two courses. The first is to leave BOAC and BEA to continue as at present, but to impose on them the duty to seek the greatest aggregate benefit for the public sector as a whole and to set up joint institutions for this purpose. It would have to be recognised that this could mean one of the two Corporations achieving poorer results than it might have achieved in isolation, in order that the other might achieve better. The second course is to establish a single Airways Board, charged with the task of maximising the aggregate benefit for the public sector, with substantially the same powers as were suggested by the Committee, but without the organisational restraints which have been the subject of particular criticism. It is this Board that would take all the decisions required to secure that the two airlines' fleets and routes were planned and marketed to the best overall advantage; it would be made clear that it had complete authority and responsibility and would not, therefore, be acting as an additional layer of decision-making. It would include the Chairmen of the two Corporations, and would be responsible for appointing the members of the boards of the Corporations. The Airways Board would decide, in the light of direct knowledge and experience, how far and how fast it would be justified in integrating the activities of the two airlines. It would be in a position to make changes quickly to meet changing circumstances. It would be responsible to the Board of Trade for financial control of the two airlines and for the planning of their future investments. The Airways Board would also be in the best position to undertake the reorganisation of secondary services in the public sector (which are considered later in this section) and other subsidiary activities.

30. The Government accept that the first course might, with determination, be made to yield some worthwhile results but are satisfied that the creation of a single Board would offer the best assurance that necessary changes were made when and as quickly as they were needed. Legislation will therefore be introduced to set up an Airways Board charged with achieving the optimum aggregate results by the Corporations. BOAC and BEA will retain their individual identities as operating airlines, but will be subject to the strategic control of the Airways Board. Although the change inevitably involves some loss of independence and will be unwelcome to some, the Government are convinced that both airlines will emerge stronger and better able to compete against their rivals, most of which run both short-haul and long-haul operations. The new organisational structure should provide greater career opportunities for those whose skill and work has contributed to the past performance of both Corporations. The public sector, and those employed in it, should benefit from the greater scope for the movement of management and staff between both the two airlines and the central organisation.

31. The Government agree with the Committee's view that there is a place in the industry for both publicly-owned and privately-owned airlines and that there may be a role for an airline group of mixed ownership specialising in the provision of regional air services. They agree also that there should be no attempt to lay down, in quantitative terms, a hard and fast share for each sector.

The independent sector
32. Competition and rivalry among airlines can, as the Report points out, make an important contribution to airline efficiency, especially by allowing the consumer to exercise freedom of choice. There are, of course, practical limitations to the pursuit of these advantages. The excessive fragmentation of effort must be avoided and the scope for direct competition on particular routes needs to be judged against the volume of traffic to be carried. Moreover, as the Report recognises, our opportunities to designate a second British carrier are likely to be limited by the nature of our bilateral arrangements. Nonetheless, the Government accept that the benefits of competition should be actively pursued wherever the practical considerations allow.

33. One of the more important tasks of the Civil Aviation Authority will be to keep under review the possibility of licensing a second carrier on a scheduled service route where this might be expected to increase the British share of the market or bring other benefits. In considering any applications the Authority will need to satisfy itself that three conditions are met. First, the applicant airline should have the skill and resources needed to mount an effective service and make it viable within a reasonable period. Secondly, the designation of an independent airline on a route already served by BOAC or BEA should not unduly impair the Corporations' services, or their capacity to meet the financial obligations laid upon them by the Government. Thirdly, the net increase in traffic gained by the two carriers together and the resulting benefits to consumers and to the balance of payments should more than offset any diseconomies. These criteria seem in the short term more likely to be satisfied on some of the trans-Atlantic routes to the United States than elsewhere. The United Kingdom's air services agreement with the United States allows either party to designate more than one carrier.

34. The Government also agree broadly with the Committee's views about competition on domestic routes. There are already two carriers licensed to serve the trunk routes between London and Belfast, Edinburgh and Glasgow. In the longer term, as the volume of traffic increases, there may be room to license a second carrier on other primary routes. But the main need for the immediate future is to consolidate the position of the second carrier on those routes where competing services already exist, with a view to the eventual removal of limitations on the frequency of its services.

35. The independent airlines have progressively increased their share of a rapidly growing air transport market, mainly by developing inclusive tour and other charter services. This evolution has been encouraged by various forms of vertical integration between airlines and organisers of group travel; in this way economies of scale and of specialisation have been gained. The Committee forecast a continuing expansion in these sectors, especially for long-haul services. Freight charter services will also become increasingly important. The Government foresee a promising future for airlines specialising in these sectors, provided that they have the necessary financial strength and managerial competence.

36. The changing nature of the market, to which the Report draws attention, implies a continuing evolution in the character of air services and a progressive change in the balance between
scheduled and charter services on international routes. The main scheduled carriers will engage increasingly in charter operations, either directly or through subsidiaries. Conversely, the scope for specialist non-scheduled carriers will increase through changes in pricing policies and in the character of services needed on particular routes.

37. One of the ways in which the structure of all sectors of the industry may be strengthened is through mergers. The Civil Aviation Authority will encourage or facilitate mergers that seem likely to strengthen the industry in pursuit of the general objectives without unduly impairing competition. The formal statement of policy will provide for the Authority to act within the terms of the Government's general policy on mergers and to consult the Board of Trade on those proposed mergers which fall within the provisions of the Monopolies and Mergers Act, 1965.

A "second force" airline

38. The Report recommends that the private sector of the industry should be encouraged to form, by the amalgamation of two or more existing independent carriers, a "second force" airline that would fill the role of second flag carrier on international routes. It is to this new airline that the Civil Aviation Authority would give preference in allocating such licences for international scheduled services as are assigned to the independent sector of the industry.

39. The Government would welcome the emergence of such a new airline if it resulted in the strengthening of the industry as a whole and contributed to the realisation of the Government's policy objectives. They agree with the Committee's view that the establishment of a "second force" airline will almost certainly take some time. A new airline of this kind must evolve progressively, proving itself at each stage. It is for the airlines to decide, in the exercise of their commercial judgment and in the light of market forces, whether and in what ways to come together. It will be for the Civil Aviation Authority to judge whether any combination of airlines will be fitted for a particular role, and to scrutinise each route application on its merits within the framework of the Government's statement of objectives and policy.

40. The Committee made an estimate of the scale of operations that a "second force" airline might need to achieve by about 1975, if it was to have a reasonable prospect of long-term viability in the highly competitive conditions that it would face. This estimate was based on assumptions about the types of aircraft that would need to be employed and the numbers of each type that it would be economic to operate. A variety of such estimates can be made, depending on different assumptions about the future size and character of the market, the mix of routes and of activities in which the airline would engage, the types of aircraft that would be required and a host of other factors. It does not follow that the scale of operations needed to provide employment for a fleet of given size must necessarily be contributed wholly, or in any specified proportion, by scheduled services. Such evidence as there is suggests that the viability of an airline depends on a number of factors, of which size is not necessarily the most important. Certainly there is no uniquely "right" size or pattern of services that a "second force" airline would need to achieve in order to be successful.
41. The Government cannot accept that the formation of a "second force" airline should be made conditional upon the transfer to it of a significant part of the Air Corporations' route networks, as distinct from double designation in appropriate cases. The Committee emphasised that territorial concessions must be limited. Some reallocation or readjustment of routes, which might include some exchange of routes, would not be ruled out where, in the judgment of the Civil Aviation Authority, this would benefit the international competitiveness of the industry as a whole and the balance of payments. Such changes in route patterns must be considered in the context of the overall contribution of the industry to the objectives of civil aviation policy. These are matters to be determined by the Authority in the light of detailed study and argument and the Government do not intend to impose a preconceived reallocation of routes on any airline, which has borne the cost of developing the routes and is serving them well.

42. The Report proposes that the Board controlling the public sector should secure its own stake in the "second force" airline through share participation or convertible loan stock. The Government recognise certain attractions in this proposal but consider that on balance it would make it more difficult to achieve the full benefits of competition, and that it would be inappropriate to use public funds in this way. There are ample precedents for co-operation between airlines, where this would be in the national interest, without one having a stake in the other; nor is such a link necessary in order to secure effective communication on policy matters between the "second force" airline and the Board of Trade.

Regional air services

43. The Report makes an important distinction between the primary and secondary networks of scheduled air services. The primary network, which comprises the great bulk of international routes together with the domestic trunk routes, can be distinguished by the larger volume of traffic, which is reflected in the increasing use of the larger jet aircraft. The primary network includes the routes between London and Belfast, Edinburgh and Glasgow and other routes connecting the main international gateways. The secondary network comprises mainly domestic services together with certain related services mainly linking regional airports with the nearer parts of Continental Europe. This network in general requires the use of smaller aircraft, of types that are decreasingly useful in other sectors of the market, and to a growing extent those airlines which engage in both primary and secondary services need to maintain separate aircraft fleets and organisations for the two purposes. In addition there are services of a more local character, employing very small aircraft of limited range and capacity, which may conveniently be described as third level services.

44. Domestic air services within the United Kingdom have a long history of instability resulting from high costs and inadequate returns. This is attributable to a number of factors, including the shortness of average stage lengths, the low volume of traffic
on many routes, difficulties of securing adequate aircraft utilisation and increasing competition from surface transport. Many operators have found it impractical to run a domestic scheduled service network as a self-supporting business and have cross-subsidised their domestic operations from their earnings on inclusive tour charter services. Since the Report appeared, the continuing difficulties faced by operators in this sector have been illustrated by the decision of Autair International Airways to discontinue domestic operations after the end of October 1969 and to concentrate entirely on its profitable and expanding charter activities, and by the fact that British Air Services Limited, which controls BKS and Cambrian, has been going through a difficult period.

45. The Report recognises that the future viability of the secondary, mainly domestic, services demands a measure of route rationalisation together with some concentration of the structure of the airlines concerned, so as to allow economies of scale and of specialisation to be achieved. It is probably also important to work towards more economical standards of service, so as to offset the intrinsically high cost structure of low-density short-haul operations. The need is for coherent route structures, a scale of operations that will permit high levels of aircraft utilisation, and the elimination of frills without any sacrifice of safety or efficiency.

46. The Report recommends that a new regional airline group should be formed round the nucleus of British Air Services Limited, a subsidiary of BEA in which there is a minority private shareholding. BEA's secondary services would be transferred to the BAS group, so as to form a nucleus that other airlines might join. It will in any event be necessary to undertake an early reorganisation of the BAS group. The Government accept the underlying concept of the Committee's recommendation that there should be a regional airline or airline group as a separate subsidiary of the Airways Board, that would bring together all BEA's domestic services other than those which can be regarded as forming an integral extension of its primary international network, and routes served by BAS. The precise allocation of resources between the primary and regional networks and the reconstruction of BAS will need to be studied in detail before final decisions are made. This will be an important task for the Airways Board, at least during the initial stages of the development of the regional airline group.

47. The Report recommends, and the Government accept, that other airlines should be free to join the new regional airline group, provided that any investment in such acquisitions by the group could be expected to show an acceptable return within a reasonable period. The Government also accept that the new regional airline should not have a complete monopoly or powers of compulsory acquisition. The scope for further acquisitions will thus be limited, since the nucleus comprising BEA's secondary services and those of BAS will already provide about 70% of total output in this sector. It is clear that some airlines now engaged in this sector may wish to retain their independence and the Government would not wish to prevent this. Indeed there might be room for more than one airline group to evolve under the supervision of the Civil Aviation Authority.
The Report envisages that the new public sector regional airline should have the structure of a holding company controlling a number of subsidiaries with close regional affinities, and that there should be private equity participation at both group and subsidiary levels. The Government are content that an appropriate structure should be allowed to evolve under the control of the Airways Board and under the supervision of the Civil Aviation Authority.

The Government foresee a significant and growing role for third level services, such as already exist, for example, in Scotland, the South West of England and the Channel Islands.

The Civil Aviation Authority will have a major responsibility in studying and promoting the rationalisation of regional services, in particular through the examination with the airlines of the scope for route rationalisation and the encouragement of co-operation. The Government accept the need for appropriate pricing policies to be evolved. It will also be for the Authority to ensure that, while the needs of the regions for services to the Continent are fully recognised, there will be the minimum of diversion of traffic from British flag carriers to the long-haul services of foreign airlines. The Authority will consult the authorities of the Channel Islands and the Isle of Man insofar as structural changes in domestic services may affect their interests; the Government will discuss with the Island authorities what machinery should be established for this purpose.
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III. ECONOMIC POLICY

51. The Report draws attention to a number of matters that are less directly related to the structure of the industry but are nonetheless of prime importance for its wellbeing and for the realisation of the general objectives. The Civil Aviation Authority will play a major role in the study and application of policies in these fields, including the primary responsibility for conducting or initiating basic research where this has been lacking in the past. In some instances the Authority will have sole responsibility, in others it will contribute to more widely-concerted efforts.

Pricing

52. The Report advocates progress towards a more rational price structure for the industry as closely related to costs as can be achieved. The Committee were well aware of the practical constraints and of the fact that changes in pricing policy must be gradual. In the international field this country cannot act unilaterally, although it can have a point of view which, over time, it might persuade others to share. The Government accept these views and recognise the need to evolve pricing and licensing criteria that will correspond more closely to market conditions as they develop. This is a task for the Civil Aviation Authority, which will be directed to establish appropriate consultative arrangements with all sections of the industry and with users of air services.

Cross-subsidisation

53. The Government accept that, as a guiding principle for the longer term, air fares should so far as possible reflect the long run marginal costs of producing the services in question, proper allowance being made for the cost of capital. In the long run ground costs should, so far as practicable, be fully taken into account. This does not preclude the cross-subsidisation by existing profitable services of new routes that are in the development stage, provided that these new routes are likely to become self-supporting within a reasonably short time. Where, however, particular services are cross-subsidised on a continuing basis, this indicates that there may be a misallocation of resources that should be rectified. The same principle applies to the prices charged for different classes and categories of travel. It argues also for a greater readiness to allow fare differentials according to the type of aircraft used (as for example between jet and turbo-prop aircraft or as between supersonic and subsonic aircraft) and for the greater use of differentials related to the hour of travel and the length of booking period required.

Domestic fares and freight rates

54. The Civil Aviation Authority will inherit from the Air Transport Licensing Board the responsibility for establishing the United Kingdom domestic air tariff. The Authority will be required to observe the Government's policies for the control of prices. The Government will retain the power to refer increases in domestic air fares and freight rates to the National Board for Prices and Incomes in appropriate cases.
Inclusive tour prices

55. It will also be the responsibility of the Authority to control the minimum prices of inclusive tour holidays to the extent that this continues to be necessary. The Government agree with the Committee that the distinction between scheduled and non-scheduled services is changing. They accept that inclusive tour prices must in general be related to public fares on scheduled services, but agree that they do not need to be identical, or indeed that there must be a relationship, in every case. The two main criteria are that the structure of prices for inclusive tours, where these are controlled, should be internally coherent and that their levels should be no higher than is necessary to give adequate protection to competing scheduled services for which there is a genuine need.

56. The Report argues that a scheduled carrier has an implied obligation to serve his routes with a frequency and capacity sufficient to ensure that, on average, the demand for seats is adequately met at reasonably short notice and with a reasonable choice of timings. The non-scheduled carrier has, in this sense, a lesser obligation. It follows that a scheduled service, operating as it must at a relatively lower average load factor than a charter service will be costlier to run. The report goes on to argue that, where the demand for scheduled services warrants, it is right to protect the scheduled carrier from the effects of lower priced charter competition, for example by setting minimum prices for charter inclusive tours and imposing restrictions on the types of traffic that can be carried at uncontrolled prices. But there may be routes where the pattern of demand does not justify the protection of scheduled services in these ways and where it would be sensible to remove existing restrictions. In the words of the Report: "... scheduled services should only be given a protected status where there is a clear need for this type of public facility."

57. Progress in this direction cannot be fast. First, a detailed route-by-route examination is needed to find out where the pattern of demand is such as to allow the present degree of protection to be reduced or perhaps removed. This will be a task for the Civil Aviation Authority. Secondly, the United Kingdom can only move in concert with other countries.

58. In the intervening period progress can be made on the lines of the tariff for the 1970 summer season of inclusive tour holidays in Europe, which was announced last July after consultation with the Air Transport Licensing Board and the industry. This tariff is designed to encourage off-peak travel, to develop traffic on the longer European routes and to reduce the adverse differential on inclusive tours departing from the provinces. This is the most recent of a series of changes in the structure of inclusive tour control prices, which have already borne fruit in terms of increased traffic for both scheduled and non-scheduled carriers, with corresponding benefits to consumers.

59. It should now be possible to begin to extend these policies to the prices of inclusive tours to destinations outside Europe. The provisions governing affinity group travel will also come under review.
International fares

60. International scheduled service fares and freight rates are regulated in the context of agreements with other countries for the exchange of traffic rights. The closely-meshed nature of the world network of air routes had led to arrangements for the settling of the tariffs through the mechanism of the International Air Transport Association rather than by a multiplicity of bilateral negotiations. It is impracticable for one country to act in isolation. The Report accepts that, despite its limitations and shortcomings, there is no ready alternative to this system but recommends that the United Kingdom should play a more forceful role in these matters.

61. The Government accept that the pursuit of more positive pricing policies generally must imply a more vigorous approach, through argument and persuasion, in IATA and in inter-governmental discussions. United Kingdom airlines play an influential part in IATA's deliberations and it is right that they should use their influence to further the objectives and policies laid down for the industry as a whole. To this end the Authority will play its part, in concert with the Board of Trade, in guiding the airlines concerned as to the objectives they should pursue, in ample time to influence the proposals they table in IATA.

62. The Board of Trade, in discharging its continuing responsibility for international relations in the Civil Aviation field, will retain its present responsibility for giving or withholding approval of IATA tariff resolutions and for negotiations with other governments on tariff matters. In carrying out these functions the Board of Trade will act in close consultation with the Authority at all stages and each will have the benefit of the other's advice.

Transport-co-ordination

63. Transport services within the United Kingdom have to be viewed as a whole if the best use is to be made of available resources in competition with rival investment needs. In the long run, the key to the optimum allocation of resources will be the adoption of appropriate pricing policies throughout the transport sector and the policies set out in paragraph 54 above represent a useful contribution towards this objective.

64. So far as investment in domestic transport involves public funds, the total amount to be allocated to the transport sector and its allocation within that sector must remain the Government's responsibility, acting with the advice, among others, of the Civil Aviation Authority, the Airways Board, the Freight Integration Council and the Regional Economic Planning Councils. The adoption and pursuit of appropriate pricing policies will provide a uniform measure of the scope and need for private investment in domestic air services and, in conjunction with standard investment criteria, a basic tool for the co-ordination of public investment so as to avoid wasteful duplication.

65. In carrying out its responsibilities regarding route licensing, fares and aerodrome planning, the Authority will have regard to the pattern of planned investment in all forms of internal transport and in particular to the implications of technological innovation. To this end the existing Government machinery for consultation on these matters will be extended to include the Authority and machinery will be further developed for consultation between the Authority and other major transport interests.
Subsidies

66. The structural changes proposed for secondary services, together with changes in pricing policies, should enhance the viability of air services to the regions. The Government recognise, however, that despite these changes there may still be certain routes or route networks that could not attract sufficient traffic to permit viable operation for a number of years or for the foreseeable future. Air services can often play an important part in the total transport and communications pattern of the regions and may indeed be essential where alternative means of transport are inadequate. The Government therefore accept the Committee's conclusion that the development of certain air services may need to be subsidised, where this would contribute to the economic and social development of the regions.

67. The Report points out, however, that no conclusive link has yet been demonstrated between the provision of air services and the pace of regional economic development. Such evidence as there is suggests that the existence or lack of air services may not be a major consideration in most industrial location decisions, which must necessarily take account of a host of other factors. Accordingly the Government consider that the first task must be to develop methods of assessing the economic and social benefits that might accrue from the provision of particular air services. Before determining the amount of any subsidy that might be justified on these grounds, it will be necessary to analyse the operating economics of the airlines concerned, the current and potential traffic flows, the influence of pricing policies and the impact of the structural changes foreshadowed in the previous section of this White Paper. Only then will the Government be able to judge the strength of the case for subsidising any particular service in the light of their general policies for transport co-ordination and regional development.

68. These economic studies will be an important task for the Civil Aviation Authority to undertake, in an advisory capacity, in conjunction with the Government departments concerned and in consultation with regional and local authorities. In view of the importance of this task, preliminary studies, building on work that has already been done in related fields, will be put in hand without waiting for the introduction of the legislation establishing the new Authority.

69. If, in the light of these studies, it is decided that an air service should be subsidised from public funds, then it is accepted that the subsidy should be direct in relation to that service. This is preferable to the present situation, in which air services are often cross-subsidised on a continuing basis by other more profitable services or are indirectly and indiscriminately subsidised in the sense that aerodrome and ground service costs are not fully recovered. Nor is it the Government's intention that support should be given by taking air services into the public sector and running them on a continuing basis at less than an acceptable rate of return. Primary domestic routes and international services from the United Kingdom will not be eligible for subsidies and the United Kingdom cannot be expected to subsidise holiday routes to the Channel Islands and the Isle of Man.
70. The Report suggests that subsidies should be financed by the reallocation to air services of funds already allocated to regional development, on the basis of recommendations by regional authorities. Financial assistance to regional development is given for particular purposes and is not allocated among the regions in predetermined amounts. There are also other respects in which the legislative provisions and machinery for regional development assistance do not easily lend themselves to a scheme such as the Report proposes. The Government accept the principle that regional authorities should advise on the relative priorities to be accorded to the support of air services and other forms of transport in and between their regions but it must remain the Government's responsibility to decide on the amount and source of public funds that should be made available both in total and in individual cases. In so doing the Government will take account of the progress being made towards the full recovery of the costs of aerodrome and technical services, as well as the impact that a particular subsidy might have on other forms of transport. The Government also agree that a proportion of the cost of any subsidy should in principle be borne by the communities and local interests that benefit from the service and that the airline concerned should have every incentive to eliminate losses within a reasonably short period. In particular, account must be taken of any benefit to the airline from interlining traffic and of the likely growth of total traffic on the route.

71. The Government will seek powers to grant subsidies, where these are shown to be justified, in legislation to be introduced as soon as possible. It is clear, however, that the payment of subsidies, which must depend on the conclusion of the necessary studies, cannot begin immediately. Subsidisation and rationalisation must go hand in hand and, as the Report makes clear, some time will be needed. The maintenance of services during the interim period must in general remain, as hitherto, a matter for the commercial judgment of the airlines concerned, with such assistance as may be given by the communities and local interests that benefit. In the public sector, domestic services that are running at a loss will normally be kept going only where there is a prospect of their being made profitable within a reasonable period. There may, however, be instances in which interim arrangements to keep services going will need to be considered on their merits.

72. The Government recognise that the geography of the Scottish Highlands and Islands sets limits to possible improvements in alternative means of transport, so that there are special grounds for ensuring the continuation of essential air services in this area. These services will continue to be supported by cross-subsidisation, the incomplete recovery of aerodrome costs and non-recovery of ground service costs until alternative arrangements are made.

73. The Civil Aviation Advisory Committees have been making an important contribution to the formation of civil aviation policy. The Government accept, however, that in the new environment their non-statutory functions should be transferred to the Regional Economic Planning Councils and that the Advisory Committees should then be discontinued.
Commercial agreements

74. The Government agree with the Committee's view that pooling and other commercial agreements may often be in the public interest. In some cases, such agreements are mandatory under the United Kingdom's Air Services Agreements with other countries or are necessary to permit the fullest development of British airlines' services. Co-operation between pool partners in such matters as the scheduling of flights may well result in the greatest aggregate benefit to the airlines concerned, to the economy and to the consumer. In some cases, however, commercial agreements may have the effect of muting competition, impairing efficiency, lowering the standards of service to the public or detracting from the country's overall economic interest.

75. The Government agree, therefore, with the Committee's view that this is an area where constant vigilance is needed. They consider that all commercial agreements should be filed with the Civil Aviation Authority and be subject to review. In examining such agreements, the Authority will be guided by the Board of Trade as to the international and general policy implications of any action that it might take or recommend.

Aerodrome planning and pricing

76. The Government accept the view of the Committee that research into aerodrome planning should be accelerated. As the Report recognises, the effective power to implement plans rests with aerodrome owners and the Government accept the Committee's view that there is insufficient case for reversing the policy of successive Governments on aerodrome ownership. Nevertheless they agree that the preparation and publication of studies on aerodrome planning will be of great benefit to owners and other authorities concerned with aerodrome development. It will be a responsibility of the Civil Aviation Authority to study the requirements for aerodromes to match the development of air services. The Government will, however, remain responsible for the allocation of public funds by way of direct or indirect subsidies, in this field as in the field of domestic air services. Nor do the Government intend in this context to change the legislation governing land use planning, since aerodrome development affects much wider interests than those of civil aviation alone.

77. The Report recommends that aerodrome charges should be subject to approval by the same body that is responsible for the regulation of air fares. Aerodrome owners are to some extent in a monopoly position and aerodrome charges are relevant to the fixing of air fares, the development of regional air services and the examination of the need for subsidies to be given in certain cases. The Government therefore agree that the Civil Aviation Authority should be given the task of advising the Board of Trade on the structure and levels of aerodrome charges. To this end the Government will set out their pricing policy for aerodromes, reflecting the guiding principle in paragraph 54 above, in their formal policy statement; the Authority will be instructed to have due regard, in framing their recommendations, to the financial objectives set by the Government for the British Airports Authority and to the international implications of changes in airport charges. Aerodrome owners will have the same opportunities as airlines to challenge the Authority's recommendations, where these appear to conflict with the declared policy.
Aircraft procurement and finance

78. The aircraft manufacturing industry has its own important place in the British economy. The Government is closely concerned with its success in selling its products in the widest possible markets and with its earnings of foreign exchange. Where the cost and risks of launching a promising new aircraft design are beyond the industry's capacity, Government assistance is at present given through launching aid schemes, provided it can be demonstrated that the project satisfies certain strict economic criteria so that there is a good prospect of recovering the investment through a levy on sales. Such assistance must, in objective and in administration, be distinguished from policies designed to foster the development of civil aviation. It is already inherent in Government policy that any support for the development of British aircraft should be given directly to the manufacturing industry. The Government welcome the Committee's reaffirmation of this principle.

79. The Government have carefully considered the recommendations in the report on finance for aircraft purchase and the eligibility of aircraft for investment grants. The Government's policies for civil air transport are intended to strengthen the industry and improve its financial stability and return. There is no reason to expect that efficient airlines earning a commercial rate of return will be unable to call on the financial facilities they need in order to renew and expand their fleets, without additional Government assistance being required. The Government therefore see no reason to change the decision, which they took in 1966, in general to exclude investment in the services sector (including investment in aircraft) from the scope of the investment grants scheme. Nor do they see any reason to seek to extend to United Kingdom airlines the arrangements for fixed-rate Government-guaranteed bank credit that apply to British shipowners' purchases of British ships.

Air Transport Association

80. The Government welcome the recommendation that the industry should establish an Air Transport Association to facilitate consultation between the industry and the Government, the Civil Aviation Authority and users of air transport services.
IV. HUMAN RELATIONS

81. The Government welcome the Committee's constructive approach to human relations questions and in particular the emphasis placed on the value of consultation and the need for proper negotiating machinery. They accept the recommendation that all airlines should be placed under the same obligation as are the Air Corporations, by virtue of Section 23 of the Air Corporations Act 1967, regarding negotiating and consultative machinery. Provision for this will be made in the Bill to establish the Civil Aviation Authority. This will provide for the Authority, when considering an airline's entitlement to operate, to satisfy itself that the airline has complied with this obligation. This will be analogous to the provisions requiring the Authority to satisfy itself that an airline has adequate financial resources, competent management and the ability to operate safely.

82. The Government share the Committee's hope that the industry of the future will offer stability of employment and attractive career opportunities, and welcome the Committee's view that high levels of labour productivity are essential not only for the industry's wellbeing in an increasingly competitive environment but also as a basis to afford high levels of pay to skilled and efficient staff. In the Government's view, levels of pay should reflect the employees' contributions to productivity as well as differences between airlines as to the character and responsibility of employees' tasks, and this will preclude absolute uniformity of pay rates. Accordingly the Government intend to amend Section 15 of the Civil Aviation Act 1949 to make it clear that, in interpreting the obligation under Section 15(1), regard should be had to the terms and conditions of employment as a whole observed by the Corporations and those observed by the independent undertakings.

83. The Government attach importance to the role of the National Joint Council for Civil Air Transport, not only as a forum for the negotiation of terms and conditions of employment but also for its contribution to the promotion of increased productivity. They reaffirm their desire that the airlines in membership of the Council should be more fully representative of the industry.

Participation

84. The Government share the Committee's view that a sense of employee participation is important. The Government recognise that the most effective method of participation is through membership of a trade union which negotiates on all questions affecting conditions of employment; they are also in favour of experiments in the appointment of workers' representatives to the boards of undertakings. The Government hope that the airlines, some of which have been leaders in the development of productivity bargaining, will show similar enterprise in devising new forms of staff participation and involvement.
V. THE CIVIL AVIATION AUTHORITY

Economic regulation

85. The Report identifies some shortcomings in the present machinery for the economic regulation of civil air transport. There is no doubt that, if this machinery were to continue in its present form, a number of changes would be needed. The Government share the Committee's view that the Air Transport Licensing Board has ably acquitted itself within the limits set by the legislative framework, although these limits and the way in which they have been interpreted prevented the emergence of a broad strategy for the industry on the lines originally hoped.

86. The Civil Aviation (Licensing) Act 1960 limited not only the range of the Air Transport Licensing Board's responsibilities but also the practical scope for it to play a formative role. It was a weakness, as the Report points out, that the objectives of British civil aviation policy were not set down more fully as a guide to action. The tendency has been for the Licensing Board to await applications and to grant those which satisfied a limited number of very general criteria.

87. In the present White Paper, the Government are setting out a broad strategic framework as a guide both to the future regulatory authority and to the industry. The adoption of the objectives and policies set out in this White Paper will require the new regulatory body to act positively in pursuit of the Government's declared objectives and policies. It will need sometimes to take the initiative rather than just to respond to the initiatives of applicant airlines. Clearly the need to choose between competing claims to serve particular routes will remain but in future the basis for selection will be different. The future regulatory body will be responsible, within the terms of the Government's declared policy, for shaping route networks and for measures to strengthen the industry's structure. It will have to consider what roles are needed and are available for airlines to perform and the ability of particular airlines to perform them. This will involve a more discriminating approach than has hitherto obtained. It will sometimes be necessary, for example, explicitly to close a sector of activity to new entrants, or to encourage or discourage certain kinds of diversification by airlines.

88. In this and in other respects there will need to be a continuing dialogue between the regulatory body and the industry as a basis for forward planning. The relationship will need to be consultative and not confined to the formal hearing of evidence and argument. The working out of the details of Government policy, over the very broad range of matters covered in the Report and in this White Paper, will involve guidance and advice as well as direction. The programme of basic research to be undertaken by the new body will lead to a better understanding of the environment in which the industry operates, for the industry's benefit as well as the Government's.
The Government believe that the economic regulation of the industry should continue to be carried out by an expert body that is not subject to detailed supervision by Ministers in its day to day decisions and which, therefore, should lie outside the normal framework of a Government department. As the Report points out, a separate body can speak authoritatively both to and for the industry. Within the discretion allowed it by the Government’s formal policy statement and directives, detailed decisions can be taken with full knowledge and understanding and with the undivided attention that the Minister in charge of a busy department cannot hope to give.

Safety and Technical Regulation

90. The Report stresses the inter-relationship between the economic, operational and technical regulation of the industry. All aspects of airline activity have a bearing on the safety of the services provided to the public. Conversely, the achievement of high standards of safety imposes an economic cost which needs to be taken fully into account both in creating the conditions in which airlines can operate profitably and in assessing the ability of an airline to fill a particular role. The more purposive direction of economic regulation which the Government now intend to adopt will make it more important to take account of these relationships. The quality of decisions, both about an airline’s capacity and performance and about the course of future developments, will be improved if the regulatory authority has the fullest possible knowledge and understanding of all aspects of airline activity.

91. There are close links between the work on operational safety, which is at present the responsibility of the Director General of Safety and Operations, and the work of the National Air Traffic Control Services, which both at present come within the Board of Trade (the latter jointly with the Ministry of Defence). With technical advance, there are also increasingly close links between the operational safety work at present conducted by the Board of Trade and the work on airworthiness conducted by the Air Registration Board; indeed, the Air Registration Board has recently suggested that there might be a case for combining some of these functions. The several aspects of operational regulation — the certification of airworthiness, the rules governing the flying of aircraft, the testing of professional competence, the assessment of an airline’s ability to operate safely and the control of aircraft movements — are interlocking aspects of a single operating environment.

92. For these reasons, the Government accept that the enhanced economic functions should be carried out, in accordance with a published policy directive, by a regulatory authority outside the normal departmental machinery; that this authority should combine with these functions responsibility for the operational regulation of the industry; and that all the operational and technical functions should be brought together within the same body. They accept, therefore, that there should be a single Civil Aviation Authority having responsibility for the whole spectrum of economic, operational and technical regulation, including responsibility for airworthiness and for the non-military aspect of the air traffic control services. A single body with responsibility over this whole field would be in the best position to form coherent judgments both on the activities of individual airlines and on the developments which will best serve the national interest in this rapidly expanding industry.
93. The Civil Aviation Authority will be able to develop a comprehensive expertise in all aspects of the industry's affairs. As such, it would be well placed to attract staff of the many professional skills required. A larger organisation such as this would be able to offer better career prospects to many of its highly skilled and specialised personnel, who would gain the opportunity to broaden their fields of specialisation by moving between areas of work that are at present in separate compartments. At the same time, as the Report points out, there would be a continuity of experience that the Civil Service is less able to guarantee. Provision will be made for some movement of staff between the Authority and Government Departments.

94. In reaching this decision, the Government recognise that certain problems will require solution and that adjustments will have to be made. In particular the separation of policy-making from its execution will require the maintenance of the closest contacts between the Board of Trade and the Authority at all times, and both will be involved together in a number of important activities.

95. In accepting the recommendation that the responsibility for airworthiness should be brought within the Authority, the Government intend no reflection on the Air Registration Board's past performance. The Board justly enjoys a high regard throughout the world and the Government are anxious that the scope and character of the Board's relations with the manufacturing and operating industries should not be impaired. The Government will be concerned therefore, to ensure a minimum of disturbance either to the present internal organisation of the Air Registration Board or to the present arrangements for consultations with outside interests. The Authority will draw on the same sources of advice as are at present available to the A.R.B.

96. The National Air Traffic Control Service has the duty both of controlling aircraft movements and also of accommodating different categories of users within the United Kingdom's limited airspace. Approximately half the aircraft based in this country are civil, and half are engaged on defence duties, with aircraft movements in about the same proportion. The needs of the various categories of civil users and of defence are different and often conflicting. The resolution of these conflicting requirements demands a combined approach to the use of the United Kingdom's airspace as a whole, and it was for this reason that the National Air Traffic Control Service was set up in 1962 as a joint defence and civil body. The confidence of all users of the air in its impartiality and ability to take the national view is important to its success. The Service will continue to operate on an integrated and national basis and will be responsible jointly to the Ministry of Defence and to the Civil Aviation Authority. The appointment of the Controller, who may be either a civilian or a serving officer, and other senior officers will as now be made jointly with the Ministry of Defence. The Authority, in taking over from the Board of Trade the responsibility for providing the civil component of the joint Service will be subject to the Government's direction on matters affecting the balance between civil needs and those of defence.

97. In taking over the safety of aircraft operations and responsibility for the civil side of air traffic control, the Authority will acquire certain responsibilities in relation to general aviation and will not be solely concerned with commercial airline operations. The Government's formal statement of policy will include guidance to the Authority in matters affecting aerial work and private flying.
The Constitution of the Civil Aviation Authority

98. The Civil Aviation Authority will be established as a body corporate governed by a Board appointed by the Board of Trade. This Board will comprise members with executive responsibilities together with independent members. The intention is that one independent member should have special responsibility for the interests of consumers.

99. The decisions of the Authority will be decisions of its Board, subject to any measure of delegation that may be provided for. The Authority will conduct formal hearings of applications for air service licences in appropriate cases; the procedures governing such hearings will come under the general supervision of the Council on Tribunals. Because of the executive responsibilities of most Board members, it is envisaged that hearings will take place before the full Board only in cases of major significance.

100. The Government accept the recommendation that a system of pre-hearings should be introduced, provided that this does not result in two levels of decision. The pre-hearing procedures will be concerned with the clarification of the issues and the evidence to be heard, so as to expedite formal hearings.

The Policy statement and appeals

101. As stated in paragraph 13 above, the Government accept that their objectives and policies for the industry should from time to time be set out in a published statement. They also accept the recommendation that such statements should be made binding upon the Authority by giving them a suitably formal status and submitting them to Parliament for approval. They propose therefore to make provision, in the Act establishing the Authority, for statements of policy to be made by means of appropriate instruments.

102. The Government recognise that stability and continuity of policy are important for the ordered development of the industry and accept, therefore, that changes should be relatively infrequent. Subject to certain provisions for specific directives to the Authority discussed below, they accept that the declared objectives and policies should be amended only by way of similar formal procedures.

103. The Government share the view that the system of appeals established by the Civil Aviation (Licensing) Act 1960 has undermined the authoritative character of the licensing body. They accept the recommendation that the grounds on which an appeal may be made against a decision of the Authority in matters of air service licences should be limited to the issue of the consistency of such a decision with the declared policy.

104. The Government accept that an aggrieved party should be able, as at present, to object to a decision of the Authority on grounds of vires and to seek a prerogative writ so as to
bring procedural defects before the Courts; but they see difficulty in the further recommendations that the Courts or a judicial tribunal should hear an appeal on the issue of the consistency of a decision with the declared policy. The formal policy statement, being concerned with essentially economic criteria, is unlikely to be expressed in terms lending themselves to judicial interpretation. The consistency of the Authority's decisions with the policy can best be judged by the Board of Trade, which will have drawn up the policy statement in the first place.

105. Accordingly the Government propose that a party to a case decided by the Authority, in a matter of air service licensing, should have the right to refer the matter to the Board of Trade on the grounds that the decision cannot reasonably be brought within the terms of the Governments' statement of policy.

In order to limit abuse of this procedure, the Board of Trade would take the power to vary the decision, at their discretion, only if in their opinion the decision was not consistent with the policy then in force.

106. The Government also accept that the Board of Trade should be empowered to suspend action on a case, in a matter of air service licensing, on giving notice that it presented issues of policy which they wished to consider. This power would be exercisable either before or after the Authority had reached its decision and even though the Authority's decision, if reached, was within the terms of the policy then in force. This power is necessary to ensure that the policy can be adapted from time to time in order to meet changed situations, as well as to ensure the long-term consistency of the Authority's decisions with the Government's and Parliament's intentions. This is, however, a reserve power to be used sparingly and only when a major change of policy is called for.

Air Service licences

107. The adoption of more purposive regulatory policies on the lines described in paragraph 88 and the bringing together of economic and operational regulation under a single Board will demand an early reappraisal of the forms and categories of air service licences. Among the points to be considered are the kinds of air services that need to be licensed, the extent to which they should each be licensed separately and the way in which requirements bearing on tour operators should be given effect. In particular it will be necessary to define the way in which the licensing system should reflect the duty of the Civil Aviation Authority to satisfy itself as to an airline's general competence, its ability to operate safely, the adequacy of its financial resources and its compliance with the requirement regarding the establishment of or participation in appropriate industrial negotiating machinery, before allowing it to engage in commercial airline operations. One aspect of this question is the need to modify the present arrangements, under which an airline that has not passed some of these tests may nonetheless engage in exempt services of a commercial character. The
The allocation of functions

108. In accepting the concept of a Civil Aviation Authority on the lines proposed in the Report, the Government are accepting also the broad complex of functions that the Report proposes the Authority should discharge. There are, however, certain exceptions and qualifications.

109. The Report recommends that the Authority should be in a position to carry the main weight of international traffic rights negotiations in most cases, in association with the Foreign and Commonwealth Office, but recognises that the Board of Trade, which will remain responsible for general civil aviation policy, must reserve the right to concern itself with these. There is force and merit in this proposal since the interrelation between route licensing and other decisions of economic regulation on the one hand and the negotiation of international traffic rights on the other is so close that the same body should be intimately involved in both.

110. The Government consider, however, that international negotiations on civil aviation, as on other subjects, must remain the responsibility of Ministers and that it would be neither appropriate nor practicable to charge the Authority with the duty of conducting international discussions whether on traffic rights or on such other civil aviation matters as the acceptance and discharge of obligations under the Chicago Convention. Since these are specialised areas closely related to aviation policy, the Government propose that they should, as in the past, be primarily the responsibility of the Board of Trade advised by the Authority. The Board of Trade will have the power to give specific directions to the Authority where this is necessary to secure the implementation of international obligations.

111. Nonetheless it is desirable that the Authority should be intimately associated with the Board of Trade in these matters. The Government intend that the Authority should have an advisory role in the negotiation of traffic rights and should provide in appropriate cases members of the United Kingdom delegation for international negotiations and meetings. In other matters only the Authority will be able to provide the specialist representation in international discussions. Accordingly arrangements will be made for the Authority to participate in international negotiations and in the proceedings of international organisations, and in appropriate cases to represent the United Kingdom in those matters.

112. The Report recommends that the Authority should have the responsibility for the control of aircraft noise. Most noise abatement measures impose some degree of penalty on aviation. Considerations of technical feasibility, compatibility with safety, and the economic penalties, must be of direct concern to the Authority, but the Government have a duty to ensure that a balance is maintained between the interests of the industry and the amenity of the public. It would not be sufficient to
rely on the terms of a general policy directive. The main responsibility for noise abatement must therefore remain with the Board of Trade, consulting the Authority where appropriate, and with the power to issue and publish directions to the Authority to implement particular noise abatement measures.

113. The Authority will not be empowered to make subordinate legislation but will be the principal source of advice to the Board of Trade in the making of such legislation in the safety, technical and operational fields. The Authority will, however, have powers to make bye-laws in certain cases, subject to confirmation by the Board of Trade, together with powers to impose conditions or requirements in connection with the grant of licences or other permissions. The Board of Trade will retain a small staff with understanding of safety and operational matters sufficient to advise on policy and on legislation matters.

114. As part of its overall responsibility for safety matters, the Authority will have responsibility for the licensing of aerodromes. Management and operation of the Highlands and Islands aerodromes and of Aberdeen depend to a substantial degree on services provided by personnel of the National Air Traffic Control Service and of the Civil Aviation Office for Scotland. Since both these organisations will be transferred to the Civil Aviation Authority it is expedient also to transfer the ownership and management of these aerodromes. The Government will look to the Civil Aviation Authority in conjunction with the Airways Board, to study and make recommendations on the future ownership and management of this group having regard to economies which might result from common control with the associated air services. It is possible that at the time when the Civil Aviation Authority is set up one or two other civil aerodromes will remain in the ownership of the Board of Trade. The Board of Trade will continue, in accordance with long-standing Government policy, to seek to transfer ownership or management of these aerodromes to other responsible bodies on reasonable terms.

115. The Report emphasises the need for the Authority to probe more thoroughly the financial and managerial resources of airlines and also the need for the fuller publication of financial and statistical data. In particular the Report recommends that financial results should be reported in a standard form. The Government accept that the Authority will need to obtain full and up-to-date returns and will empower it both to obtain and to publish such information in respect of airlines and the organisers of inclusive tours. Arrangements will be made for co-ordination between the Authority and the Government Statistical Service. The Government regard the publication of fuller information as being of considerable importance so that the public may be able to judge the performance of the industry as well as that of the Authority in exercise of its stewardship.

116. The steady evolution of interlocking arrangements between airlines and the organisers of group travel, together with the emphasis placed in the general objective on the interests of the consumer, require that the Authority should be in a position to...
satisfy itself that adequate arrangements have been made to safeguard the public against the risks consequent upon the financial failure of organisers of group travel involving air transport and, if necessary, to require the furnishing of appropriate guarantees.

**Financial control**

117. The annual expenditure of the Authority is likely to be about £25 million, the greater part of this figure being accounted for by the provision of air navigation services and other technical services. The Authority will be financed partly by fees and charges for its services, many of which are already so financed, in whole or in part, and partly by the provision of services on contract to Government departments. Where and for so long as costs cannot be fully recovered in these ways, finance will be provided by means of grants from public funds, their size being determined in advance by the financial objectives which the Government will set the Authority for each of its main areas of activity.

118. The long term objective must be for the Authority to recover the full cost of its services in all cases in which that is appropriate. The pace towards full cost recovery of en route navigational services will depend on the outcome of international discussions and in this case it will be necessary for the Board of Trade to approve the proposed charges. Where possible, however, the Authority will be permitted to determine its own fees and charges, in the light of the financial objectives set for it by the Government and bearing in mind the discipline imposed by limited and pre-determined grants. Within these controls and the Government's prices and incomes policy the Authority will be able to enjoy the maximum degree of freedom in the way it discharges its responsibilities.

119. The Authority will be required to employ modern management techniques and, where appropriate, to produce accounts on a commercial basis. The accounts, after audit by the Comptroller and Auditor General, will be presented to Parliament with the Authority's Annual Report.
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VI. SUMMARY: THE SHAPE OF THE FUTURE

123. The principal objective of civil aviation policy must be to encourage the provision of air services by British carriers, in satisfaction of all substantial categories of public demand, at the lowest level of charges consistent with a high standard of safety, an economic return on investment and the stability and development of the industry. This objective must be set in the context of the need to help strengthen the balance of payments and contribute to the overall growth of the economy.

124. The Government will create the conditions necessary to strengthen the structure of the industry. They will establish an Airways Board controlling the public sector airlines, and charged with the task of securing that the fleets and routes of BOAC and BEA are planned and marketed to the best overall advantage. This Board will have complete authority and responsibility and will not, therefore, represent an additional layer of decision-making.

125. There is a continuing and promising role for independent airlines having the necessary financial strength and managerial competence. The Government favour the licensing of a second British carrier on scheduled service routes where certain criteria are satisfied. The Government would also welcome the emergence of a "second force" airline, formed by the amalgamation of two or more existing independent carriers, but cannot accept that the formation of such an airline should be made conditional upon the transfer to it of a significant part of the Air Corporations' route networks.

126. The Government accept the need to strengthen the structure and improve the viability of regional air services through the formation of a regional airline or airline group.

127. The Government accept the need for more rational pricing policies and for a more active role in relation to IATA. The Government accept that it may be necessary to subsidise certain air services that contribute to the economic and social development of the regions. They will seek powers to grant subsidies where these are shown to be justified in the light of detailed economic studies.

128. The Government welcome the constructive approach of the Edwards Committee to human relations questions and will provide for the obligations now placed on the Air Corporations to be extended to cover all airlines.

129. The Government will establish a Civil Aviation Authority to regulate the whole economic, operational and technical environment of the industry within the terms of a published statement of objectives and policies. The Authority will implement the more positive economic policies that are now to be followed and will be responsible also for all aspects of air safety. On these matters, it will deal on the same basis with all public and private sector airlines. There will be a limited right of appeal to the Board of Trade, on grounds that a decision cannot reasonably be brought within the terms of the policy then in force.
130. The Board of Trade will be responsible for laying down the objectives and policies for the industry as a whole and for seeing that the Authority carries them out. The Board of Trade will continue to exercise its present functions in relation to the Airways Board and the British Airports Authority. It will continue to bear the main responsibility for negotiating international agreements affecting civil aviation, for the investigation of accidents and for the control of aircraft noise.

131. The Government are confident that these changes will enable the industry to meet the challenge of the future and to increase its contribution to an expanding economy.