

MONDAY 3 DECEMBER 2007

Present

Freeman, L (Chairman)
James of Blackheath, L
Mitchell, L
Paul, L
Powell of Bayswater, L
Walpole, L
Whitty, L

Witnesses: **Ms Sandra Webber**, Divisional Head, **Mr Tom Oscroft**, Branch Head, **Mr Ian Woodman**, Director and **Ms Liz Duthie**, Divisional Head, Department for Transport, examined.

Q1 Chairman: Good afternoon. Welcome to the Committee and thank you very much for coming. We are interested in being briefed on where Her Majesty's Government has got to on a view on Galileo and airport charges. It might be helpful for the record, for the shorthandwriter's assistance, if you could give your names and titles so that she can record them.

Ms Duthie: Liz Duthie; I am the Head of the Galileo Programme Division in the Department for Transport.

Mr Woodman: Ian Woodman; I am the Director of Maritime and Dangerous Goods in the Department for Transport and my responsibilities include Galileo.

Mr Oscroft: My name is Tom Oscroft from the Aviation Directorate in the Department for Transport; I have been policy advisor on the Airport Charges Directive.

Ms Webber: Sandra Webber, head of Civil Aviation Division, Department for Transport.

Q2 Chairman: Thank you. We are in your hands.

Mr Woodman: If it would help the Committee what I propose is that I very briefly summarise the conclusions of the Transport Council that took place on Thursday and Friday last week at which Galileo was discussed, and briefly read out the minute statement that we tabled on that occasion. This will give you an overview of the conclusion of the Transport Council. The Transport Council concluded by first of all acknowledging the estimated costs for deployment of the Galileo system over the period to 2013 as being 3.4 billion euros (which is approximately equal to £2.3 billion). They further considered that this should constitute the ceiling for expenditure on Galileo during this financial perspective. The Council subscribed to an effective public sector governance for the programme with the Council and the European Parliament as the ultimate decision making bodies and all Member States maintaining political oversight of the programme with full access to information about the programme. The Commission would be fully responsible for the overall management of the programme as programme manager, with Member States associated with the essential elements of the programme through a Global Navigation Satellite System Committee. ESA would act as procurement agent subject to a future agreement between the Commission and ESA setting out the control and tendering measures for the programme. The Council also confirmed a number of main principles for the procurement of the system. The first of these was robust and fair competition; the second, open access offering a chance of participation at all levels of industry, including for small and medium sized enterprises; the avoidance of long term dependency on single suppliers; a split of procurement into six main work packages with the prospect of multiple simultaneous procurement strands for individual work packages including satellites; 40 per cent of the work to be sub-contracted to companies other than those belonging to prime contractors. Finally, the Council welcomed the Commission's commitment to call upon independent project management experts to review the programme. If you are content I will read out the UK minutes statement which said, "We welcome the

Council conclusions setting out principles that should be applied for the deployment phase under public procurement. To maximise the benefits that Galileo can deliver for the EU we now need to work cooperatively together to put into practice the principles that the Council has agreed. Throughout the discussions on Galileo we have consistently argued for effective project and risk management, maximum competition in procurement and the early involvement of private sector capital to ensure that Galileo provides good value for money for the community. We remain strongly committed to the application of these principles in the public procurement of a full operating capability for Galileo and in its subsequent operation, maintenance and refurbishment which should be on sound commercial principles. We therefore highlight the declaration of 23 November of the European Parliament, the Council and the Commission on the resources available for Galileo in this financial perspective. We look for the maximum possible competition, including where possible the use of multiple, simultaneous procurement strands for individual work packages and the tightest possible control of costs and risks to ensure Galileo is delivered within this cost ceiling and as early as possible for a successful entry into the market. We additionally emphasise the need for a review of the project by independent experts, Member States and the Council on a regular basis and at key decision points, including when finalising the contract with ESA, once quotes have been received from industry and at the end of the current in-orbit validation phase. In order to inform decision making we also urge the Commission regularly to review costs, risks and likely revenues from the services offered by Galileo, including in the light of technological and market developments as the project progresses.” That concludes the minute statement.

Q3 Chairman: Could you help us in terms of how it is to be financed, the £2.3 billion?

Mr Woodman: Those were matters that were dealt within Ecofin Councils which are the responsibility of the Treasury. They are to be found partly from a reprioritisation within

heading 1(a) of the financial perspective which is the competitive heading, but also by reallocating money from the margins in headings 2 and 5 which are agriculture and administration, to find the total sum. If the Committee wanted more information on that it would probably be better if I got the definitive line from the Treasury.

Chairman: It is helpful to have it on the record.

Q4 Lord Mitchell: Of the £2.3 billion what percentage is being shunted from other areas? What amount is new money in the project?

Mr Woodman: The total cost in this financial perspective for Galileo would be 3.4 billion euros of which approximately 1.1 billion was already within heading 1(a) earmarked for Galileo, so there was another 2.3 billion euros to be found. Of that amount 400 million is coming from various research frameworks within heading 1(a); 200 million is coming from funds reallocated within heading 1(a) and the remainder is effectively coming from the other elements of the financial perspective, heading 2 and heading 5.

Q5 Chairman: For the record could you say what headings 2 and 5 are?

Mr Woodman: Heading 2 is agriculture and heading 5 is administration.

Q6 Lord Powell of Bayswater: Did anyone else associate themselves with our minutes statement?

Mr Woodman: I am not yet clear on that. That was being decided when I left the Council on Friday and I have not yet seen the final version but I believe that at least Sweden did so, yes.

Q7 Lord Powell of Bayswater: I listened as carefully as I could to the statement – it was all very fluent – but what is actually the difference between it and the conclusions of the Council other than the rather specific provision for reviews at certain points of the programme?

Mr Woodman: The point of the minutes statement was to highlight the particular points to which we attach considerable importance and, as you say, in many cases it reiterates what is in the conclusions but highlights those as being the key points we see. The key difference is indeed that we specify the points at which believe there should be a review of the programme, including by independent experts.

Q8 Lord Powell of Bayswater: That is just us and possibly the Swedes.

Mr Woodman: Yes, but I think there is a wider sharing of views, including amongst the Commission, that there are certain key points at which it is sensible to review the programme, so I do not see that as necessarily a point of great dispute between Member States or the Commission.

Q9 Lord Powell of Bayswater: So generally we have actually just gone along with the programme.

Mr Woodman: The Government has, I think, managed to secure its key objectives. If you looked at the explanatory memorandum that we submitted covering the last conclusions from the Council which set out what we hoped to achieve, I believe the Government has managed to achieve those key objectives that it laid down there, in particular the Government has managed to achieve the cost cap that it wished to see on this programme within this financial perspective, 3.4 billion euros. It has also achieved what it was attempting to achieve in terms of free and fair competition and particularly parallel procurement streams within some of these work packages to ensure that there are maximum opportunities for British industry including the smaller and medium sized enterprises.

Q10 Lord Powell of Bayswater: Was there much resistance to those provisions?

Mr Woodman: There was certainly some resistance from some other Member States to the idea of too much in the way of parallel procurement streams where that might reduce the amount of work that might be going to their national industries. There also certainly was, at the beginning, considerable resistance to the idea of a cost cap on the budget; there was the normal assumption that costs might escalate in the way they normally do so I think we achieved a reasonable outcome in getting that included in the conclusions.

Q11 Lord Powell of Bayswater: What would happen if the cost cap is reached? Would the project just stop?

Mr Woodman: I do not know if I can directly answer that, but with any project as you proceed there are clearly a number of choices that you have to make about exactly what you are asking for in the requirement and the speed at which you deliver it and the like, therefore it seems perfectly sensible that they should be given a cost cap within which they are forced to operate and forced to make those kinds of decisions rather than just assume that money can be found with no difficulty to deliver a system.

Q12 Lord Powell of Bayswater: My recollection from serving in Brussels is that normally when a cost cap is reached it is exceeded.

Mr Woodman: I cannot of course rule out the possibility that if the cost cap were reached the Council and Member States might agree to continue, especially if it was outside this particular financial perspective, but nevertheless I think we got a reasonable position, including the cost cap, within this financial perspective.

Q13 Lord Whitty: I was not entirely clear when you were talking about the review that we were advocating at what point is the earliest review and how much of the £2.3 billion will have been spent by then?

Mr Woodman: The first of those points would almost certainly be the point at which we look at the contract between ESA and the Commission; that is very important because it defines the guidelines under which ESA will be operating and in particular the degree of risk that ESA would be expected to manage and how it would manage that risk. That will be within the next few months as that contract is defined. The second point would be at the conclusion of the in orbit validation phase; that phase is already under way and the costs of that are not included within the 3.4 billion which is the cost for the deployment phase. That will conclude in 2010 so that will be the next date.

Q14 Lord Whitty: The 3.4 billion euros is from after that, is it?

Mr Woodman: Indeed, that is for the deployment; that is the additional money that is being asked for for the deployment.

Q15 Lord Whitty: How much would be have expended by that 2010 date?

Mr Woodman: We will have expended in total 1.7 billion euros on the development phase – the in orbit validation – in addition to 0.13 billion that was spent on the definition of the project itself right at the beginning of the programme. Both of those sums are sums which are part Community funding and part funding through ESA through the national subscriptions to ESA.

Q16 Lord Whitty: Since the whole point of this project – apart from the final service end which in the early discussions could have been provided by an American system – how much of that money has been spent in European industry and European institutions?

Mr Woodman: The vast majority of that money would be spent with European industry but in the Council Conclusions we do not rule out taking tenders and placing contracts elsewhere.

Q17 Chairman: Could I ask a historical question, was any research done by the Department into Project Hermes, the events of 20 years ago and the project which, as you know, went ahead without British participation, which ran out of money and eventually was terminated? Was there any brief prepared for ministers on past history in this sphere?

Mr Woodman: In the time that I have been involved with the Galileo programme from this summer that is not the case. Liz has been involved for longer.

Ms Duthie: I do not know of anything done on Project Hermes. When we appeared before a committee in another place one of the members did refer to the breakpoint procedure which is common in projects of which Hermes may have been one, but that breakpoint and ability for any one member state to come out of the project does not exist in Galileo.

Q18 Lord James of Blackheath: Does the £2.3 billion include any cost for write-off or for unsuccessful or only partially successful systems which are being replaced?

Mr Woodman: No.

Q19 Lord James of Blackheath: Is there any other system in place at the present time?

Mr Woodman: There are two satellites that are in place, one is related to EGNOS which is the satellite augmentation programme which augments the GPS system and provides a system with added accuracy and integrity in a limited geographical area. It is a separate programme and separate satellite but clearly it is related to Galileo. The second satellite that is in orbit at the moment is the test satellite for Galileo which is testing a part of the system and is making sure that the Community still has access to the necessary frequencies; it is safeguarding the frequencies. That is a test satellite in orbit at the moment and there will be three further test satellites as part of the in orbit validation phase¹. They are part of the normal sequence of the

¹ The witness has since clarified that there will be a total of two test satellites (one of which is already in orbit) and a further four in-orbit validation satellites.

project, testing and evaluating what you need to go into the final specification and then delivering the final product.

Q20 Lord James of Blackheath: From a consumer's point of view I have found no complaints about the systems which are available at this time; why do we need £2.3 billion worth of additional spend on something which appears to be working very well?

Mr Woodman: As ministers have made clear in another place when answering similar questions, the advantage that Galileo brings is that it adds another 30 satellites; adding another 30 satellites significantly increases the availability of a signal. Your chance of being able to see the number of satellites you need to get a fix wherever you are, including within urban areas where signals can be blocked by high rise buildings, that chance is significantly increased, so there is a much better signal availability. Secondly you add resilience to the global navigation satellite system's operation across the world; if one system goes down there is no reason to believe that the other one would. It is those two advantages together that in particular add value by adding a second system.

Q21 Lord James of Blackheath: It sounds a lot of money for something which, in practical terms, does not, from my personal experience, add up to a lot more than I would need to get around in Europe with.

Mr Woodman: GNSS systems – global navigation satellite systems – are of course used for much more than just navigating vehicles, for example. They have two key aspects, one of which is obviously positioning, and positioning is used in a wide range of functions including oil industry, geo-surveying, agriculture, et cetera, et cetera; the other is timing, and an accurate timing signal which you get from these satellites is again used widely in telecommunication networks, in electricity grid networks, in banking and finance networks.

It is that combination of things that the system provides value for and are increasingly being a critical part of the economic functioning of the major economies.

Q22 Lord James of Blackheath: In your list of crossovers there you did not include anything military; does that come in as well?

Mr Woodman: It is very clear from the outset of this project that Galileo is a civil system under civil control. We have also said that it is clear that there could be military uses for the system.

Q23 Lord James of Blackheath: Or abuses?

Mr Woodman: There could be military uses; there is an open signal, it would be perfectly open to anybody, including an infantryman with a satellite receiver in his pocket, to use a Galileo signal.

Q24 Lord James of Blackheath: In the last war we took down all the signposts to avoid the Germans knowing where to drive their tanks when they got here. It seems all they have to do is switch on this system and we have done the job for them rather well this time.

Mr Woodman: I am not sure I can answer all of your questions on potential military applications of GNSS systems. The American GPS system obviously has certain things built into it to deliver whatever the US wants in terms of military considerations.

Q25 Lord James of Blackheath: Thank God they were not around in 1939 I think is all I can say on that one. Do you not think that with the recitation of the other peaceful applications – you talk about agriculture and everything else – that that implies a number of departmental sources which ought to be making a significant contribution to this budget to reduce the actual net cost of £2.3 billion?

Mr Woodman: There will certainly be contributions that are expected to the cost of it from the users of the system. There is certainly a presumption that there will be services delivered by Galileo for which people will be prepared to pay and for which they should be charged and they will indeed be offset against the cost to the Community of delivering and providing the system.

Q26 Lord James of Blackheath: That is quite a frightening answer. Does it actually mean that the £2.3 billion is not the gross cost of this but the net cost after assumptions of certain revenue recoveries?

Mr Woodman: No. The cost I quoted which is the cost for the deployment of the system post the in orbit validation phase there are no assumptions there about any revenue streams. There will subsequently obviously be a cost for operating the system for over how many years it is operated and there is an assumption that some of those costs will be offset by revenues received from users.

Lord James of Blackheath: Those answers suggest to me that there is a missing part of the answer we have not been given, which is the net financial balance sheet of the whole of this project and I think it would be interesting to ask for it.

Chairman: I will take note of that.

Q27 Lord Paul: We have heard about the 3.4 billion euros but this paper writes that this is by no means the real cost because when it comes to the actual calculation it can be very different. How much variation can it be? From 3.4 to 7, 3.4 to 5 or 10? This statement is completely open.

Mr Woodman: The Transport Council have agreed that the costs for the deployment of the system will be capped at 3.4 billion. That 3.4 billion includes an allowance for contingencies, it includes an allowance for some of the risks that will certainly materialise in the production

of the project; that is allowed for within the cost. There are of course further costs beyond the 3.4 billion which are the operating costs of the system and it is currently estimated that over the period to 2030 – this is the period from 2013 when the satellite system is supposed to be operational until 2030 – the operating costs, on the assumption that we might use a PPP operator to deliver the operation of the system and its subsequent maintenance and its replenishment have been estimated at about 6 billion euros, £4.3 billion.

Q28 Lord Paul: I was not referring to the costs; I am just reading the costs from the paper that says the total cost of achieving full operational capability for Galileo will be 3.4 billion euros, but it admits that full cost will not be known until procurement negotiations are under way.

Mr Woodman: That is correct.

Q29 Lord Paul: What can be the difference?

Mr Woodman: There are two points about that, first of all the costs of the project have been capped at 3.4 billion euros so if it were the case that industry came back with quotes that were considerably over 3.4 billion the European Community and Member States would clearly need to look at the project again in the light of that. My second point is, that is precisely why we identified key decision points in our minute statement, for the very reason that you raise, that there is of course a risk that the quotes from industry will be higher than anticipated in the estimates.

Q30 Lord Paul: What you are really saying is that if it goes beyond 3.4 billion they will still be in a position to say they do not want it because it goes beyond what they all thought.

Mr Woodman: Absolutely. Obviously if the costs are going to be more than 3.4 billion the Community will have a difficult decision to take.

Q31 Chairman: May we move onto airport charges now?

Mr Oscroft: The draft Airport Charges Directive was discussed at the Transport Council on Friday 30 November and the general approach was reached which UK Ministers supported. The provisions of the text are such that the general approach is very much as set out in the Minister's letter to the Committee of 23 November 2007. We believe that the provisions of the Directive, as they now stand, are a considerable improvement on the initial proposal from the Commission published back in January. We believe they have reduced the regulatory burden on UK airports whilst they also provide some benefit to UK airlines serving airports and other Member States. If I could just say what the key provisions of the draft directive now are, firstly it applies to all airports of over five million passengers per annum and the largest airport in each Member State where this is less than five million passengers. This means 63 airports across the EU, 11 of which are in the UK, based on last year's data. There is a requirement for consultation between airlines and airports on airport charges. These can now take place on an annual basis unless otherwise agreed by airports and airlines, including respecting any multi-annual agreements between airlines and airports over airport charges. The information transparency requirements in the directive are now more proportionate and we do not think that these should be too burdensome on any smaller UK airports, subject to the directive. Member States have to establish or nominate an independent supervisory body to investigate appeals from airlines about airport charges and this independent body has the power to make binding decisions; airlines have a right of appeal to that body if they disagree with an airport about changes to airport charges. Importantly for the UK, where a Member State already has an established approach to economic regulation of airport charges – as we do in this country under the Airports Act 1986 – the right of appeal to the independent body in the directive need not be applied. This is important as it helps allow the current UK airport regulations under the Act to continue as present, avoiding any possible duplication or conflict

with the requirements in the directive. The implementation of the directive period has now been extended from 24 months to 36 months. We believe that the directive, as revised, is a substantial improvement on the initial draft and the legislative process will now continue considering the amendments agreed by the European Parliament probably early in the new year.

Q32 Chairman: Could you just help the Committee by explaining the basis of the control of charges to passengers for use of the airport terminal buildings as opposed to airlines?

Mr Oscroft: The draft directive is only concerned about the transaction between the airline and the airport rather than passengers; that is not part of the directive.

Q33 Lord Walpole: I have raised issues about whether airports thought they could raise charges for their own use, as indeed Norwich International Airport has done recently, charging every passenger £3 who wishes to board an aircraft in that building.

Mr Oscroft: I understand that is the practice at Norwich and also at Newquay Airport and one or two airports in Ireland who have adopted a similar approach.

Q34 Lord Walpole: That is specifically for improvement of the airport – in Norwich it is – to handle the amount of passengers it is now expecting.

Mr Oscroft: Yes, I understand it is to pay for their investment.

Q35 Lord Walpole: Can other airports just make charges like that? Can Norwich make a charge like that?

Mr Oscroft: I do not think there is anything to prevent airports raising such charges if they wish. I understand the charges at Newquay and Norwich have been in place for a number of months now.

Q36 Lord Walpole: In Norwich it is not actually thought to be very popular and one poses the question as to whether it is legal or not. Would you like to comment on whether it is legal? It probably is.

Mr Oscroft: My understanding is that it is not illegal. I think the Department sees this as a commercial decision for the airport operator.

Q37 Lord Walpole: It comes under the same sort of heading as they can charge what they like as car park charges.

Mr Oscroft: Yes, I suppose there are parallels to that.

Ms Webber: Nothing in this directive would affect it in any event. It would not be contrary to this directive; as far as we know it is not contrary to any existing legislation.

Q38 Chairman: Could you tell the Committee what is the likely view of airlines, either individually or collectively through their trade associations, as to how things have turned out at the Council?

Mr Oscroft: I cannot really speak on behalf of airlines. When we had the consultation about the draft directive earlier in the year UK airlines were certainly more in favour of the draft directive provisions than UK airports were, to the extent that the provisions of the directive may have been watered down somewhat from the airlines' perspective; they may be less in favour of it now than they were back in the spring. I think there are still aspects in here which should appeal to airlines; it does give them the right of consultation with airports and will lead to the establishment of independent supervisory bodies in Member States where those do not already exist which I think would be of some benefit to UK airlines.

Chairman: There are no more questions from colleagues. Thank you for giving such a clear explanation. The session is now closed.