



Reform of ATOL bonding - "in principle" decision

21 August 2007

Sir Roy

As you know, the joint DfT and CAA consultation on the reform of ATOL bonding closed on 29 June. This consultation was part of the remit given to the CAA by the Secretary of State for Transport in November 2005 to look at ways of reducing the burdens of ATOL bonding on tour operators. I am grateful to CAA for the hard work and effort that has been put into meeting this remit.

Following careful consideration of the responses along with the analysis and advice provided by the CAA, the Government has decided 'in principle' that a Â£1 ATOL Protection Contribution (APC) and the associated arrangements described in Option 3 in the consultation document should be introduced from 1 April 2008. Subject to the decision being confirmed, the current arrangements whereby all ATOL holders are required to provide bonds will end from that date.

A total of 88 responses to the consultation were received. Amongst these, there was a very large majority in favour of the option of replacing bonding with the Â£1 APC â 70 respondents favoured this, 4 opposed it while 14 did not address the question. Those in favour included the trade organisations representing ATOL holders, individual large ATOL companies as well as a range of medium sized and smaller ones. There was practically no support for Option 2 which proposed retaining bonding with an additional levy.

Respondents argued that the APC would reduce both their direct costs and administrative costs compared to bonding and would have other benefits too. The analysis carried out by CAA shows that a Â£1 APC paid into the Air Travel Trust Fund (ATTF) should be financially sustainable under a range of plausible scenarios based on future failures of ATOL holders and the costs involved. It should also allow the ATTF overdraft to be paid off within 3 years and the Government Guarantee to be withdrawn.

I am giving an 'in principle' decision now to allow ATOL holders to plan their business with more certainty, particularly those whose licence is to be renewed in September 2007. It should also allow more time for bond obligors to adjust to the new arrangements.

Further, an 'in principle' decision will allow the CAA to enter into firm negotiations with insurance providers about the necessary insurance policy to provide additional liquidity in the unlikely event of the insolvency of one of the major tour operators. Should those negotiations be successful, I would propose to confirm the decision to introduce the Â£1 APC in the autumn at the same time as laying the necessary secondary legislation before Parliament. If the outcome of your negotiations is not satisfactory, the amount and timing of the introduction of the APC will need to be re-considered. I would be grateful if

you could keep my officials in touch with progress in the negotiations and provide further advice to me by the end of September.

The main opponent of the APC was the Association of British Insurers (ABI) which made a number of points of principle about concerning the proposed APC as well as detailed points relating to the consultation questions. The Government has considered the ABI's comments carefully.

One of the points of principle raised by the ABI concerned allowing ATOL holders choice about how to provide final protection. A current alternative to bonding exists on a small scale through 'franchise arrangements' available to the 1,300 ATOL holders licensed for up to 500 passengers. I encourage CAA to explore the scope for continuing these arrangements when the APC is introduced. The ABI also raised the possibility of extending the availability of franchise arrangements when the APC is introduced, for example by increasing the passenger ceiling. I should be grateful if CAA could explore this too and update me on the discussions by the end of September.

ABI also outlined a number of insurance based options that could be developed to supplement the APC. The review of the APC, once the ATTF becomes stable in around 3 to 5 years, could be an opportunity to consider such options again, by which time there might be more opportunity for the market to develop them.

Finally, concerns have been raised about the requirements for new ATOL holders to provide a bond for up to 4 years in addition to paying the APC. I fully understand the need for additional measures to protect the ATTF and its contributors from firms at relatively high risk of failure who have only contributed the APC for a short period. I also wish to ensure that the £1 is sustainable and appreciate that consistency is important to promote consumer awareness. At the same time, it would be undesirable if these measures unduly restricted new firms from entering the market. I should be grateful if you could re-examine this point to ensure that a balance is struck which protects the ATTF without unduly limiting new entrants.

Jim Fitzpatrick