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British Airways Response to CAP2103
Economic regulation of Gatwick Airport: notice of proposed licence modifications

Thank you for the opportunity to respond to the proposed modifications to GAL's licence; we set out below our views on the Civil Aviation Authority's ("CAA") proposals

1. Proposed Modifications to Gatwick Airport's Economic Licence

1.1 The proposed modifications in Appendix B are aligned with our expectations.

2. Proposed Commitments and Way forward

2.1 The points and concerns raised by IAG in the response to CAP1973 dated 30th November 2020, remain.

2.2 It is evident from the proposals that the expected impact of Covid-19, throughout the Regulatory period, has been a key consideration in the CAA's acceptance of GAL's proposed commitments. While we understand this position, we reaffirm our view that Gatwick is well positioned to see a strong recovery in passenger numbers and continues to hold significant market power.

2.3 We thank the CAA for its response in relation to the price determination, as referenced in CAP 2103 as well as the letter to the Airport Consultative Committee ("ACC") dated 23rd Dec 2020. Again we recognise the uncertainty of the period we find ourselves in and, as the CAA states, any analysis was purposed to be illustrative rather than predictive, however, we would request that the CAA confirm its intent to undertake a full analysis in preparation for the regulatory period beginning April 2025.

2.4 Additionally, we request that the CAA confirms why setting out the underlying building blocks approach to support the price path would not be appropriate in determining the required revenue that supports the price path. We welcome the CAA's desire for airlines, such as ourselves, to work better with Gatwick airport and reach commercial agreements, as described a 'lighter touch regulation'. However, we request for transparency that the



published RPI-X underlying gross yield price path can be supported by an assessment of efficient commercial revenues and operating costs – albeit on a lighter touch basis than other regulated airports – and the price mechanism might also be adjusted, as appropriate, to reflect actual capital expenditure, in order to advance the interests of the consumer.

- 2.5 The removal of the net yield price commitment to one of merely monitoring discounts further weakens protection for consumers and airlines in this regard. Whilst we recognise the effect of Covid-19 upon this regulatory period, this is important for the subsequent regulatory period beginning in 2025.
- 2.6 We raised the point throughout the consultation process that the method of indexation (RPI) should be transitioned to one based upon CPI. We welcome the CAA's assessment of this as a relatively strong case and encourage the CAA to commit to a review, at the very least to ensure it forms part of the proposals for the subsequent regulatory period.
- 2.7 We also support the principle of focussed reviews, as put forward by the CAA, covering the average discount levels, service quality including the new metrics, and the investment consultation process. However, we request greater clarity on the intended scope and timings and strongly believe the review should be timed after the first year of the new regulatory period, but before the end of the second year to enable the outputs to be incorporated as soon as possible. We suggest there should be an option to delay any review, if parties agree, for instance should low traffic volumes mean service quality measures have not been sufficiently tested. These outputs will also then inform the consultation for the subsequent regulatory period, which starts in the third year of this period.

Yours sincerely,

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