

CR/jcc/031
26th April 2011

Civil Aviation Authority
CAA House
45-59 Kingsway
London
WC2B 6TE

Email: regulatorypolicy@caa.co.uk

Dear Sir/Madam

Ref: CAA Consultation on Prioritising Consumer Issues

Thank you for requesting our response to the CAA Consultation on Prioritising Consumer Issues.

Peel Airports Limited

Peel Airports Limited (PAL) is one of the largest privately owned airport companies presently operating airports in the UK. It operates the regional airports of Liverpool John Lennon Airport (LJLA), Doncaster Sheffield Airport (DSA) and Durham Tees Valley Airport (DTVA).

Peel Airports are important economic drivers in the regions they serve. They contribute to the development of respective regional economies thus adding value to the national economy.

Executive summary

We welcome initiatives which are aimed at prioritising consumer issues, delivering better customer service and improving overall consumer experience.

Our customers are at the forefront of our business strategy and are key to the success of our business.

However, we share the industry's concerns about our ability to deliver desired customer service quality and overall passenger experience improvements due to the growing cost burdens on the industry.

These cost increases are driven by external factors such as new regulatory requirements, new aviation security measures, new airport policing, the cost of using aeronautical frequency spectrum etc.

These are newly introduced cost drivers which are outside our direct control.

The impact of these costs on the financial performance of the business is significant.

Like many other regional airports in the UK we may have to consider making budget reductions and postponing planned improvements in customer service quality in light of mounting pressures from indirect cost increases.

Customer Experience and Growing Cost Pressures

There has been a noted change in the availability of funding aimed at assisting airports with development programmes following the demise of Regional Development Agencies and reduction of availability of the European Regional Development Funding (ERDF).

Until recently PAL actively participated in the ACI's international airport service quality surveys carried out by the Airport Service Quality Company, the world leader in airport service benchmarking surveys.

The survey results were used by our airport management to identify those areas which required more focus and our attention in order to deliver more improvements and meet our customers' expectations.

It also provided a very useful insight as to how our airports performed against our direct competitors both domestically and in the European market.

However, our participation in the ASQ survey and airport service quality benchmarking had to be discontinued due to rising indirect cost pressures beyond our control.

The key indirect cost drivers are listed below:

- Unfair taxation of the UK aviation sector (APD taxation) which is either absent or significantly lower in the rest of the EU
- UK Aviation sector already pays the highest aviation tax in Europe¹. This cost element will rise even higher when the Emission Trading Scheme comes into force in 2012.
- Declining competitiveness of UK regional airports due to increased costs beyond airport operators' control
- Growing cost of layered airport security measures (above EU defined security requirements) imposed on UK regional airports by the Government
- Access to public/national funding - a number of regional and some main national airports in the EU are still part public sector funded for airport policing, airport security, border control etc. unlike airports in the UK
- New cost element - implementation of the airport policing regime at UK airports; this legislation requires airports to provide funding for police presence
- New cost element - implementation of the EU Airport Charges Directive at UK airports
- New cost element - rise in future cost of economic regulatory regime for UK airports; all UK airports whether they are market dominant or not, will be subjected to a degree of regulation and will have to meet the resulting cost
- New cost element - OFCOM's Administrative Incentive Pricing, a fee to the industry for using the aeronautical radio spectrum
- Distorted competition (higher level of cost in the UK market vis-a-vis EU market)

¹ Air Passenger Duty (APD) has increased between 140% and 325% since 2007, and its top rate is some 8.5

times the average of other countries in Europe which still levy a charge. This places UK airports at a real competitive disadvantage.

As the indirect costs referred to above continue to rise, it is becoming increasingly difficult for airport authorities to deliver major improvements in customer service and overall customer experience.

The main focus of business of many small regional airports has been the continuity of operations and services. The funding for desired improvements in quality of service is being scaled down to enable us to meet the above costs.

Customer Awareness and Informed Choices

We welcome the announcement made by Transport Minister, Theresa Villiers, earlier this year to propose a reform of the current ATOL system and to consult with industry in May this year on the proposal to extend the ATOL scheme giving consumers a greater level of protection.

In addition to the above, we would like to draw your attention to the document we submitted to the DfT in June 2010 as part of the DfT Consultation on the Implementation of the Air Service Regulation (ASR)².

We shared our concerns with Airport Operator Association (AOA) members about a potentially negative impact that the regulation may have if adopted as proposed.

We need to ensure we get it right first time to enable UK airports to continue developing their business models and adapt to the dynamic changes in the aviation market.

The continued ability to apply the Airport Development Fee (ADF) at UK airports for example, ensures that airports and airport investors have a greater freedom and flexibility when developing their business strategies to deliver future growth.

We have discussed this issue with AOA members and we agree that the implementation of the ASR and new enforcement regime should not affect the ability of airports to levy these types of charges³.

We believe that the perception and the status of the ADF in the UK should be brought in line with those ADF concepts that already exist in the international aviation markets where ADF schemes are applied in some shape or form as part of an airport's strategy for securing necessary funding for delivering future improvements of airport infrastructure, facilities and service standards for the benefit of their customers.

Customer Rights and Enforcing Legislation

Last year's ash cloud crisis, air traffic strikes, political unrest in the North African countries and flight disruptions caused by winter weather have again highlighted some of the problems associated with how the EC Regulation 261/2004⁴ is implemented across the EU market.

The regulation lacks clarity and does not go far enough in respect of defining airline responsibility and passenger rights when flight disruption occurs due to extraordinary events. The resulting effect is that a number of air travel customers are not adequately looked after or compensated for the inconvenience.

² "EC Regulation 1008/2008, Common Rules for the Operation of Air Services in the Community (ASR), 3rd package" came into force on 1st November 2008

³ Carriers operating in the EU market are required to advertise fares inclusive of taxes. A full breakdown of individual tax items (such as ADF for example) should be available to a customer ensuring transparency, customer awareness and informed choice.

⁴ EU Regulation 261/2004 - Common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights

Despite having to accommodate stranded passengers overnight in the past, Airport terminals are not designed for this purpose.

Economic Efficiency and Competition

The CAA is right that market competition in general has already had an impact on the air travel industry in the UK. Market competition has delivered reduced cost of flying, enabled greater access to air travel, delivered innovation in the way flights are sold and promoted competition amongst airports in the UK.

We believe that market competition is the preferred option which delivers further benefits to consumers and creates more room for service improvements and innovations.

Competition drives the cost down, however recent increases in regulatory pressures and rises in indirect costs will create an environment in which our competitiveness in the EU market will be further eroded. Our focus on improving the customer experience we offer is weakened as our efforts are concentrated on meeting rising costs.

Summary

Our customers are at the forefront of our business strategy and are key to the success of our business.

We welcome initiatives which are aimed at prioritising consumer issues, delivering better customer service and improving overall consumer experience.

However, we share the industry's concerns about our ability to deliver desired customer service quality and overall passenger experience improvements due to the growing cost burden on the industry.

The nature of our commercial agreement we have in place with our airline customers prevents us from levying directly to airlines any additional costs over and above the already agreed fees.

Like many other regional airports in the UK, we may have to consider taking reductions in the budgets available for delivering expected customer service quality improvements in light of mounting pressures from indirect cost increases.

Therefore, we would like the CAA to consider our consultation responses below and take into consideration the implications of the indirect cost rises highlighted on our ability to deliver benefits to our customers.

Please contact me should you wish to discuss our response further or if you require any additional details.

Yours sincerely



Craig Richmond
CEO
Peel Airports Limited

Consultation Question:

1. Do you agree that the principles provide sufficient clarity about the framework the CAA will use to prioritise the cases it takes forward? How might clarity be improved?

In general the document provides sufficient clarity about the framework the CAA plans to implement to prioritise its future work.

However, we have expressed our concerns in respect of rising costs to the industry, which result from implementation of either regulatory or aviation policy compliance requirements at UK airports including those in Peel Airports Limited.

These cost elements are mostly driven by decisions which we have not been able to influence and therefore are beyond our control.

Like many other regional airports in the UK, we may have to consider unwanted reductions in the budgets available for delivering expected customer service quality improvements in light of mounting pressures from indirect cost increases.

Therefore, we would like the CAA to consider our consultation response and take into consideration the implications of these rising indirect costs on our ability to deliver benefits to our customers.

2. Do the principles set out cover the main issues the CAA should consider, or do you have any suggestions for other areas that should be included?

We share the industry's position on market competition as the preferred approach over the overregulated industry, which would be constrained and unable to deliver benefits for passengers and consumer of the air travel sector.

The CAA is right that market competition in general has already had an impact on the air travel industry in the UK. Market competition has delivered reduced cost of flying, enabled greater access to air travel, delivered innovation in the way flights are sold and promoted competition amongst airports in the UK.

Market competition delivers further benefits to consumers and creates more room for service improvements and innovations. However recent increases in regulatory pressures and rising indirect costs will create an environment in which our competitiveness in the EU market will be further eroded and our focus on improving the customer experience we offer weakened, as our efforts are concentrated on meeting the rise in costs, thus denying our customers the benefits we believe we could otherwise deliver.