

27 May 2011

Assessing the market power of Heathrow, Gatwick and Stansted

Request for evidence and expressions of interest

In April 2011 the CAA issued guidelines on how it would assess market power in the airport sector. At the time we announced that we would shortly begin the process of assessing the market power of the three currently designated airports: Heathrow, Gatwick and Stansted. With this letter we are formally announcing the start of this process and want to invite you to register your interest to be involved and to consider what relevant evidence you might want to submit.

This letter provides a high level overview of the scope and the timescales of the work, how we want to involve stakeholders and the broader context in which this work is taking place.

Scope and timescales of the market power assessments

We are starting the market power assessments now with the aim of publishing provisional results by the end of 2011. The results are intended to inform the way in which we will approach the regulation of Heathrow, Gatwick and Stansted in the next regulatory price control review (Q6). While this requires we have robust results by the end of this year, we expect that in 2012 and beyond we will revisit – and possibly refine and update – the results as part of the ongoing Q6 review. This iterative approach ensures that we have the best available evidence base on which to build the Q6 regulatory settlements for each individual airport, and that the final settlements reflect any significant changes that might occur during the Q6 review.

In order that the assessments reflect the reality of airports' and airlines' businesses, we will be looking to industry to share with us their views, evidence and analysis, and we are reserving a significant part of the next four months for the collection and evaluation of evidence. Some thoughts on how we can do this are outlined in the next section below.

We currently envisage that we will prepare a number of individual working papers over the summer focusing on specific topics, bringing together the evidence we gather. Drafts of our emerging thinking on the questions of relevant markets and market power are likely to become available from October onwards. Throughout the project, we are keen to provide opportunities to stakeholders to challenge and discuss with us our work and emerging thinking.

Stakeholder involvement

As part of the evidence gathering phase, we will contact individual stakeholders very shortly. As set out above, we would like to meet individual stakeholders for face-to-face meetings and speak to operational and strategic decision makers, to understand the drivers

and incentives behind airports', airlines' and other market players' decisions. In addition we might ask for specific data or information that we regard as relevant for our assessments. In preparing for this part of the process, we have compiled a list of the types of evidence that we might be requesting from stakeholders, which is attached to this letter for your information. In preparing for face-to-face meetings we will also endeavour to send questionnaires and/or a list of the topics we would like to discuss in advance. We also very much welcome stakeholders coming forward to discuss with us any suggestions for specific pieces of analysis they might want to undertake themselves.

We are also very keen to use a forum of key stakeholders as an informal "sounding board" for our work and thinking as it emerges, to open it up for constructive challenge and to ensure that we have taken account of all relevant facts. We are envisaging that we will do that by publishing occasional working papers on which we invite stakeholders to comment, either in writing or through bilateral discussions. We might also arrange a small number of workshops on specific issues of particular importance that would be announced closer to the time, but would likely take place between July and October.

Before finalising our findings in December we are planning to present and discuss drafts of our findings at a seminar which is likely to take place in October/November. We are envisaging that Andrew Haines and I will attend this meeting, to provide you with the opportunity to discuss issues directly with us.

We would be grateful for early feedback from you about your ability to participate in this process and any suggestions for further evidence and primary research that you would regard as relevant for this exercise.

Context to the market power assessments

The primary purpose of the market power assessments for Heathrow, Gatwick and Stansted is to inform the next regulatory price control review (Q6) of these three airports. The CAA had made a commitment to make assessments of market power a cornerstone of its next regulatory review, acknowledging that the degree of market power held by different airports affects the way in which airports should be regulated to achieve the best outcomes for consumers.

The CAA has previously carried out work to prepare for this approach: it produced guidelines setting out how it would expect it would carry out market power assessments for airports¹ and preparatory work on alternative approaches to economic regulation of airports, including a discussion of a number of regulatory tools and methods that could be applied to airports².

In parallel to the market power assessments we will also continue to engage with stakeholders as part of our work to prepare for Q6. We started this process with a Roundtable on 16 May, with a second Roundtable scheduled for 14 June. In July we are planning to publish a first issues document that sets out the broad strategic questions facing Q6.

All of these workstreams support the development of the next regulatory settlement, and where it is helpful and appropriate to do so we will aim to combine communications on the different work streams and highlight the interdependencies between them.

¹ CAA, Guidance on the assessment of airport market power, April 2011, available at <http://www.caa.co.uk/docs/5/Final%20Competition%20Assessment%20Guidelines%20-%20FINAL.pdf>.

² CAA, Identifying alternative forms of regulation for airports – Stock take and way forward, March 2011, available at <http://www.caa.co.uk/docs/5/ergdocs/AltRegulationWayForward.pdf>.

Next steps

We are hosting the second of our Q6 Setting the Scene Roundtables on 14 June. At this meeting there will also be an opportunity to address any questions on this letter and its attachment.

In due course we will contact individual stakeholders to start the evidence gathering phase. At the same time we very much welcome stakeholders who want to get involved to contact us. We also encourage stakeholders to start assessing, at this early stage, any evidence or research that they might consider preparing, and we encourage stakeholders to contact us to discuss it with us at a very early stage.

Please contact alexander.dunki@caa.co.uk to register your interest. If you have any questions about the issues raised in this letter, or would appreciate an opportunity to discuss the issues with us, please contact Isabell Kohten (020 7453 6234; isabell.kohten@caa.co.uk) or Chris Hemsley (020 7453 6237, chris.hemsley@caa.co.uk).

If you would already like to submit evidence, please also send this to alexander.dunki@caa.co.uk, with any confidential sections clearly marked as such. The CAA would expect to publish any non-confidential responses to this letter.

We welcome your replies by 20 June 2011.

Iain Osborne

**Group Director
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[sent electronically]