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Dear Mr. Cheong

Review of Price and Service Regulation at Heathrow, Gatwick and Stansted Airports

Thank you for providing GATCOM with the opportunity to comment on the CAA's developing views as outlined in the Q6 Policy Update.

GATCOM has welcomed the investment and emphasis on service quality to both passengers and airlines that the current owners of Gatwick have demonstrated over the past two years. The service quality regime's performance targets are now being consistently met and GATCOM is most pleased that GAL is continuing to improve the facilities and services it provides to increase its AQA survey ranking. The overall passenger experience at Gatwick has significantly improved and GATCOM shares GAL's desire to be able to invest with greater pace. We will continue to act as a critical friend to GAL, particularly through the work of our Passenger Advisory Group, in ensuring that appropriate facilities are provided and levels of service maintained and improved for both passengers and airlines.

We acknowledge that it is early days in the new competitive environment in which Gatwick now operates and that the benefits of the Government's proposed regulatory regime have yet to be experienced, both of which make it difficult to judge whether Gatwick should continue to be subject to economic regulation beyond 2014. GATCOM believes that the current price cap regulation is inflexible and costly and is not therefore appropriate for Gatwick going forward. However, our members believe that a lighter touch, more flexible regulatory regime may be needed for a period of time beyond 2014.

GATCOM has considered the seven key questions posed in your letter of 22 May and offer the following comments on questions 1 –4 in respect of Gatwick Airport.

...cont'd

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How should the CAA approach a strategy for airport licensing?

GATCOM agrees that the approach to airport licensing should be flexible and framed around local circumstances such as the new market position of Gatwick, different passenger priorities and the varying business models of a wide range of airlines operating at the airport. A one size fits all approach is not supported.

The key to a successful licensing regime will be through open and transparent involvement and engagement between GAL, the airlines and a range of other key stakeholders, in developing the terms of the licence. The proposed approach set out in the consultation document appears sensible and GATCOM particularly welcomes the inclusion of a licence condition to cover stakeholder consultation arrangements which should also include a specific reference to consult the airport consultative committee.

Under current arrangements, the constructive engagement process is exclusively with the airlines operating at Gatwick and although GAL has shared an abridged version of its initial Business Plan with GATCOM, there is no formal provision to include the input of GATCOM, particularly its Passenger Advisory Group. The benefits of formally involving GATCOM at some stage in the process will mean that the passengers' interests, through seeking the views of GATCOM and its Passenger Advisory Group can be better represented. It will also mean that GATCOM's views on the need to invest in environmental measures at the airport can be taken into account by the airport and airlines thus helping to ensure that environmental considerations are considered locally and in a fair and balanced way.

Also of particular importance to GATCOM is the inclusion of appropriate licence conditions relating to the monitoring and publication of performance and service standards, as well as environmental information which will benefit passengers and the wider public.

How can the CAA ensure that its review of economic regulation is passenger focused?

GATCOM welcomes the new focus on the passengers' needs and experience and we agree that the provision and publication of information for passengers is a key driver for airports and airlines (and their handling agents) to improved service delivery. The current regulatory provisions for publishing performance, together with the voluntary publication of third parties performance at Gatwick e.g. airlines' baggage delivery performance and UKBF passenger processing performance, has significantly helped to improve performance and the reputation of the businesses concerned. GATCOM would further encourage the voluntary publication of performance targets by other agencies that fall outside the scope of airport regulation.

As regards constructive engagement at Gatwick, this has worked well over the years in bringing together the airlines and airport management in the negotiation of projects to be included in the capital investment plan and service quality standards. GATCOM therefore encourages the CAA to continue to facilitate this process but with opportunities for enhanced engagement with GATCOM's Passenger Advisory Group at appropriate stages in the process. This will ensure that the passenger perspective is given on future projects and the setting of service quality and performance standards. It will also help to ensure that sufficient weight is given to all passenger needs, current and future, on the end-to-end journey experience through the airport in the development of the business plan. We accept that airlines may be anxious about discussing future projects and business cases/models with other stakeholders because of the potential disclosure of commercially sensitive information. However, all Passenger Advisory Group members have signed a confidentiality agreement with GAL to enable discussions to take place on future needs of passengers.

In addition to enhanced engagement with GATCOM, it is important that the CAA also shares any relevant evidence from its passenger research with GAL, the airlines and GATCOM including any conclusions reached by the CAA's newly formed Consumer Panel.

As regards protecting the passengers' interest during significant delays and disruption, it is important that the CAA encourages greater sector-wide collaboration between the various players and key stakeholders to share intelligence on passenger priorities and to explore options for improving service delivery across the airport as well as with on-ward travel providers.

How can regulatory incentives toward service quality be improved?

It is important that whatever service quality regime is put in place for Q6 it is targeted and proportionate, and incentivises the right commercial behaviours.

There is no doubt that the current SQR scheme has focused airport management's attention to ensuring that the service quality standards are regularly and consistently met so as to avoid the payment of penalties. However, if a lighter touch regulation is to be applied at Gatwick, it is suggested that service standards are applied with the possibility of appropriately weighted penalties and incentives, and are monitored and published. The involvement of GATCOM in the setting of service standards and the monitoring of results is important so as to ensure that passenger expectations and needs are taken into account.

As mentioned above the voluntary publication of third parties' performance standards at Gatwick has helped to achieve improvements in service quality. GATCOM advocates this approach and hopes that the CAA can facilitate this on a wider scale.

What is your view on the rationale for economic regulation at Heathrow, Gatwick and Stansted?

As mentioned above, GATCOM believes that the current price cap regulation is inflexible and costly and is not therefore appropriate for Gatwick going forward. However to rely entirely on competition could adversely affect the checks and balances that exist between the airport management, airlines, passengers and the surrounding population. While airports should be in competition between themselves, the lack of capacity reduces free competition and some form of regulation of Gatwick, a lighter touch/more flexible regime, may be needed for a period of time beyond 2014.

There is no doubt that over the past two years under new ownership, Gatwick is now competing for services in the majority of sectors of the London and South East markets, focusing on balanced point to point, short and long haul growth. The current owners of Gatwick are keen to improve the airport's competitive edge through offering the right facilities and levels of service to both airlines and passengers. GATCOM fully supports this approach.

However, capacity constraints at the London airports at peak times, which are likely to continue for some time, means that airlines do not have the choice to develop and grow services at their airport of choice if slots are not available. A light touch regulatory approach over a specified period of time beyond 2014 may therefore provide some assurance to airlines, passengers and other interests that sufficient protection from the risk that the airport could levy unreasonable price increases on airlines or allocate them inappropriate service quality is in place.

In the event of the CAA and Secretary of State deciding that Gatwick no longer has substantial market power and is no longer required to be subject to economic regulation, GATCOM is anxious that some form of protection is offered to passengers in terms of service quality in the future. The Airport Charges Regulations do not offer the same protection to passengers as it does to airlines to ensure that airport charges and service

quality is not discriminatory. GATCOM therefore hopes that GAL will voluntarily enter into a form of service level agreement with airlines and its handling agents setting out service quality and performance standards for a range of services at the airport and for their regular publication. Alternatively, there is also scope for GAL to negotiate with the local authorities a Section 106 agreement to require the reporting of passenger standards to sit alongside the other Section 106 agreement obligations that are already in place at Gatwick. This would also bind future owners.

We hope our comments can be taken into account.

Yours sincerely,



Assistant Secretary