

**RPG Open Forum 21 June 2012**

Questions and Answers

<b>Question</b>	<b>Answer</b>
<p><b>Competition</b></p> <p>How will the potential conflict between promoting competition and delivering airport capacity be resolved in relation to economic regulation? (Andrew Price, Halcrow)</p> <p>Does the CAA believe it can 'promote competition' in markets which structurally inhibit competition. And if so, how so? (Ian Clayton, Ryanair)</p> <p>Could the CAA please clarify how it proposes to promote competition in the provision of airport operation services beyond Q5, given the second paragraph of its (incoming) primary duty? (Mattias Biornfors, Gatwick airport)</p>	<p>On connectivity The question assumes that a less competitive system would promote capacity. It is far from clear this is true. Whilst secondary trading of slots is not a perfect system, it is functional – as seen in the large exchanges of bmi slots being exchanged recently. So we consider the current pattern of slot usage is probably close to what the market is looking for. We cannot see why an artificially constrained pattern of slots would produce a better outcome relative to the capacity the market is actually asking for. (Which might not be the same as what lobbyists believe the market ought to be asking for.)</p> <p>Also efficiency would suffer, and the passenger would be less likely to see any benefits.</p> <p>On how the CAA can promote competition The CAA can regulate airports in ways that facilitate rather than hinder competition between airlines.</p> <p>As regard competition between airports, this is primarily a function of passenger and airline demand. In this area our main ability is to make sure we are not actually hindering competition e.g., by over-regulation.</p>
<p>What does the current debate around hub capacity mean for competition for Heathrow as a national hub and other airports?</p>	<p>The government and the CAA will need to consider the impact that hub developments have on the viability and passenger offering of other airports around the country. At the moment, the UK is very well served in terms of connectivity and there is no crisis.</p> <p>However, serious problems might emerge over time if no more capacity is made available. However, a key consideration will be what effect does building a mega-hub have on the ability of consumers around the country to access the right type of services from alternative airports.</p>
<p>Given the demand for flights to and from Heathrow and the change of ownership of Gatwick and potentially Stansted is it not time to let the market decide the price of operating from these airports?</p>	<p>The CAA is committed to imposing the minimum burdens, while also regulating where it is necessary. It will be the CAA's primary duty to protect the consumer's interest, through promoting competition where appropriate.</p> <p>Therefore, where there is market power and the threat of abuse we will continue to regulate, but will aim to do so with as small a burden as is consistent with effectiveness; and will seek to de-regulate where the market power situation (and the other relevant legal tests) enables this.</p> <p>We have published our initial views on market power assessments. We have found for off-peak slots that Stansted has no significant market power, but need to do more work to make an overall assessment. We have found that there is a hierarchy of market power with Heathrow the highest, then Gatwick and then Stansted.</p>
<p><b>Consumer Rights</b></p>	
<p>Why is the CAA not seem to be visible in the recent</p>	<p>Our role was different from that of airlines. It was that of a regulator rather than a lobbyist. It if has been the case that the passenger interest</p>

<p>debate on immigration queues? (Barry Humphries, BATA)</p>	<p>needed to be raised and no one else was doing it then we might have taken a more visible stance.</p>
<p>Do you see any conflict between strategic objectives to promote competition and keeping an arms-length approach to market power? (Ryanair)</p>	<p>Our main responsibility is protecting consumers, while promoting competition where appropriate. We believe that competition has many benefits, but regulation is needed where it does not apply.</p>
<p>Does the CAA believe that passenger rights liabilities should be open-ended? And if so, should this apply to other modes of transport? (Ian Clayton, Ryanair)</p> <p>Does the CAA consider that parties to airport charters should underwrite their performance, in terms of liabilities, e.g. EC261? (Ian Clayton, Ryanair)</p>	<p>It is not the CAA's job to decide rights; rather it is that of the European Parliament and Council. We can, however, influence their view and advance our review of these rights to achieve the best outcome possible for the public. Our job then is to enforce peoples' rights and ensure that they're protected.</p> <p>In the review of denied boarding compensation we will be engaging with the DfT and the EC on this to get the best that makes sense for passengers. It is not always beneficial to give passengers additional "rights" if these cost more than passengers want to pay, or if collective provision is less efficient than a market solution. The CAA will be encouraging the European legislators to make the law work as efficiently as possible.</p> <p>Clarity of what rights and liabilities actually are created must be a prime goal of revision of the regulation.</p> <p>Regarding inter-modality: we seek to ensure that passengers can understand their rights, and it would be easier for passengers to understand if their rights were the same across all modes of transport.</p> <p>Regarding EC261 and Passenger Charters, a Charter's primary aim would be to map, tie together and make sense of the multiple "governance" agreements that apply on an airport campus (e.g., Conditions of Use, airport-airline contracts, airline-ground-handler contracts, GH licences, "snow plans" etc.). Clarity about the obligations that each party owes to the others is the first goal.</p> <p>Where a failure has happened, Reg 261 does provide for compensation in some circumstances, and a voluntary charter seems in principle a more efficient means of handling that than litigation. It would seem fair that airlines should also accept liability where they create costs for airports (e.g. when airports have to provide welfare assistance).</p> <p>That said, the Charters are quite clearly a voluntary initiative and it is important to avoid stalemate because one party or another cannot secure everything it wishes in a Charter.</p>
<p><u>Policy Advice and the Environment</u></p>	
<p>EC terminal air navigations work concern in RP1 on airport performance metrics and data? I'm concerned that there is not enough work on cause and effect (taxi time/ATFM)</p>	<p>The CAA believes it is important to think through targets, and the best way to identify their impact. Airport-level measures will need to be consistent. We share your concerns and will continue to engage on the issue.</p>

<p>impact on metrics. (Catherine G, BAA)</p>	
<p>How will the CAA decide what constitutes ‘too many passengers’ at an airport? If it does so decide, what will it do? And, if it does something, now will this align with policy and promote competition? (Ian Clayton, Ryanair)</p>	<p>Work done ahead of the SEAT study found that for passenger levels up to a certain level airports were well equipped, but when close to nominal capacity we then saw large spikes in the level of delay. This lack of resilience can create costs that are greater than the value created by the extra slots</p> <p>Based on a 2008 study, there was found to be a dis-benefit of £400 million per year by adding marginal flights at Heathrow, when at/slightly under capacity. This is quite big compared with the increase in passenger benefit. As such, we are not keen on micro-managing the airport but we are keen on ensuring that at the extremes, airports are not overloaded.</p> <p>It is the role of the capacity declaration process to avoid over-scheduling, and we want to ensure feedback into that process from areas that need to pick up the cost of capacity delay.</p> <p>The APFG will report to the Minister on the progress against the SEAT recommendations including capacity declarations.</p>
<p>When advising government, what is most important to your thinking, the market / competition, the passenger / end user, or what’s best for UK plc? What about government objectives for rebalancing the UK economy? (Sarah Brookes, MAG)</p>	<p>When advising government, the CAA is focused around the consumer and direct user of aviation, although recognising that national policy also needs to take account of environmental factors such as noise.</p> <p>In general, we consider that a policy designed around the needs of passengers is also in the best interest of the UK national interest. This is because aviation only actually creates value by transporting people and cargo – so it makes sense to organise policy around the core way that value is created. Also, policy organised around satisfying various lobbies can tend to be distorted by political rent-seeking.</p>
<p>Will we advise on the viability of different airport expansion proposals? (Tim Hawkins, Stansted)</p>	<p>We have a statutory role to advise on airport capacity, and will will engage with the debate as it develops, which in due course is likely to include looking at the viability of particular proposals. However, the starting point for the debate should be to look at what are the UK’s objectives (and priorities) in this area; the debate has not yet matured to a point that these are clear.</p> <p>Therefore, our response to a call for evidence on hub capacity is more likely to look, rather than at assessing particular engineering proposals, rather at “what counts as a good answer”. That is to say, to set out a checklist of the things we think that particular proposals should address. There are perhaps a dozen different areas that should be covered when assessing proposals, however the media reports generally have only tended to cover about 2-3 of these.</p>
<p><b>Costs</b></p>	
<p>Given that charges to non-designated airports are rising, what work will you undertake on (a) airports’ ability to recoup costs from airlines and (b) impact on the commercial viability of smaller airports? (Sarah Brookes, MAG)</p>	<p>We monitor the economics of non-designated airports, with an annual report to the CAA board on the health of small and medium sized airports. So we do have an understanding of the tight financial conditions that they are under and are in the position to understand the impact of costs. Given that some have closed down in recent years, we are in a good position to understand the extra costs incurred by the changes to airport charges.</p> <p>We consider that in a competitive market, firms may have the ability to pass on these costs to customers; unless the airport is operating at the</p>

	<p>edge of price sensitivity, which may be the case at some airports.</p> <p>It was only after much debate and evidence that we raised the costs, having concluded that airports were paying too little, whilst airlines were paying too much. Although it is hard for airports to have to pay higher charges, it would also be hard for the airlines to continue to pay this unjustified element. We believe that it is fair to consult on how quickly this cross-subsidy should be unwound.</p>
<p>I am concerned over a smaller budget – CAA well funded with environment work, consumer panel, do you have enough resources for economic regulation? (Isabel Knox, BA)</p>	<p>We are confident we can do robust work, partly because the context is changing. We are seeing competition developing, therefore it is likely that our approach to regulation would be different. Customer engagement at Heathrow has got off to a better start than in Q5, so we hope to be doing more gap-filling and checking that outcomes address the passenger interest. We are working in the context of financial constraints and therefore need to be aware of this when planning resources.</p>
<p>Are you confident that you understand interaction between RP2/Q6 and resource? (Andrew Williams-Fry, Gatwick)</p>	<p>Yes, we are confident, with the caveat that the RP2 work is still at a relatively early stage. There are options we have for undertaking the RP2 work, and we are about to consult on these [now published].</p> <p>It is the first time we are doing all four controls at once. As such, we will have to prioritise in carrying out the work, and we will do that in an open and transparent manner.</p>
<p>If CAA pension arrangements were normalised, how will this impact NATS pensions/opex costs in RP2? (Ian Clayton, Ryanair)</p>	<p>The CAA is in a unique position where the regulator and the main regulated company are under the same pension scheme. However changes in the CAA part of the scheme would have very little impact on NATS's cost under RP2 for two reasons:</p> <p>First, there are strict walls between the assets and liabilities of the two pension schemes and therefore changes in one are kept separate from the other.</p> <p>Second, even if they were to have an impact on NATS, the effect of pension changes cumulates over the medium term, and would be limited during the RP2 period.</p>
<p><b>Environment</b></p>	
<p>Does the lack of a statutory basis for the CAA's environmental programme compromise its potential effectiveness? (Rob Gibson, L.B. Hounslow and 2M group)</p>	<p>The Bill currently before Parliament relates mainly to airport regulation. In that area we consider that, with or without a new environmental duty, we can still allow in regulation for the normal environmental provisions involved with running an airport. This is because it is also in the passengers' interest for these effects to be captured. There are many sensible things that airports do, and good practice on environmental issues such as noise abatement. It would be bad if regulation did anything to hinder good practice.</p> <p>Going beyond that position, as regards price control of airports, would create an entirely different outcome altogether in re-shifting our focus from that of protecting and advancing the interests of the consumers, into protecting and advancing the interests of the environment. We would become a green regulator as opposed to an aviation one.</p> <p>On the wider question, this question was the subject of a significant independent review in 2010 including consultation by Government. Our conclusion from the process was that, overall, it would be helpful for the CAA to have the duty. However, this would also have to be matched against other CAA duties on the safety and consumer fronts. We do recognise that it is not a case of merely tagging the duty to the existing</p>

	<p>Acts, for there is a huge amount of work that needs to be done on the statutory framework and the incorporation of other duties. Having said that, a huge amount of work has already been done, which is covered by other legislation that protects the environment.</p>
<p><b>Noise</b></p> <p>You have indicated that you see noise and the local environment getting to the top of your environmental agenda. How do you see this working? E.g. you as moderator, or information provision or best practice. (Aviation Environmental Federation)</p>	<p>We have a number of tools and role of data gathering and analysis through ERCD. If we get an environmental information duty then we can do more on information dissemination. Our role is to generate new ideas and stimulate debate which we tried to do with our insight notes.</p> <p>We believe that more can be done to help the public and consumers recognise and understand the effects of noise through the work that we are doing. Moreover, there is room to expand the discussion that is already taking place in the public arena by floating the kind of ideas that came up in this morning's discussions.</p> <p>The technology with aircraft has got much better but people's perception of noise has become far worse. Some of that might be to do with a feeling of powerlessness or a lack of a stake on behalf of the community. There are structural issues as well, which see communities and airports take a relatively confrontational approach to an issue despite the potential for solutions which might deliver benefits of interest to both sides. Therefore we could do some work to review the structures that airports have with their local communities to see how these can work better to address perceptions.</p>