

Virgin Atlantic Airways Response to CAA Consultation on Heathrow Market Power Assessment

26th July 2013

Virgin Atlantic Airways (VAA) agrees with the CAA's assessment that Heathrow continues to hold a significant market power. As the UK's only hub airport Heathrow is an essential facility for VAA. Continued strong economic regulation therefore remains extremely important to us in order to protect our passengers from the market power held by the airport. This response builds on, rather than replicating, previous responses and evidence submitted.

In VAA's view Heathrow clearly passes Tests A, B and C and therefore continued RAB based regulation and strong governance controls are required.

Test A

VAA agrees with the CAA's assessment that HAL has significant market power.

VAA notes the arguments put forward by the airport that implies competition with EU hubs airports. However, for a UK-based long-haul airline, this is not the case. The international routes VAA flies to are covered by bilateral air service agreements negotiated between Governments. These can have varying levels of restrictions, and can in cases limit the airport from which we fly from, without further negotiation. This coupled with the significant sunk cost investment we have at Heathrow as a home base carrier means we are unable to relocate our services to a European hub.

Whilst we disagree that Heathrow competes with European hubs, we think the benchmarking carried out by the CAA's consultants has been helpful in identifying and benchmarking pricing trends across hub airports¹. This shows Heathrow has become increasingly expensive and out of line with comparable hub airports and they have therefore used their market power to price above an efficient price.

Since the CAA published its market power assessment, HAL have responded to the CAA's initial proposals by unilaterally reducing their proposed capital plan for Q6. We found it surprising that they have managed to both revise-down and prioritise a £2 billion capital plan with no input from their key customers, who are best placed to judge passenger interests at the airport.

¹ <http://www.caa.co.uk/docs/78/ComparingCappingAirportCharges.pdf>

This seems to show further evidence of the dominant position they hold and the need for continued robust regulatory controls.

Test B

VAA agrees with the CAA's assessment that competition law on its own would not provide sufficient protection from the market power held by the airport.

Ex-ante regulation has a number of advantages that outweigh competition law and that some form of licenced based regulation should be applicable at the airport during the Q6 period.

Test C

VAA agrees that the benefits of a robust licence based approach outweighs the costs of regulation. The Airport Charges Regulations 2011 and Airports (Groundhandling) Regulations 1997 will not provide sufficient protection to air transport users.

The airline community at Heathrow is working with HAL to create a more efficient and effective consultation and governance process for Q6. The CAA needs to use its new powers to ensure that clear and robust frameworks are in place to make sure these processes improve the effectiveness of economic regulation going forward.