



Civil Aviation Authority
Aviation House
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Crawley
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economicregulation@caa.co.uk

4 March 2021

Dear Sir/Madam

Re: CAP 2098 – Economic Regulation of Heathrow Airport Ltd: response to its request for a covid-19 related RAB adjustment

We welcome the further opportunity to provide our views on the CAA's response to Heathrow Airport Ltd's (HAL) request for a RAB adjustment to address the financial impacts of COVID-19 [CAP 2098].

MAG is the owner and operator of Manchester, Stansted and East Midlands Airports. These airports compete with Heathrow Airport to attract passengers and airlines. As such, the CAA's decisions regarding the regulation of HAL have a direct impact on MAG's commercial interests.

Whilst we welcome the CAA's recognition of the "need to consider the likely impact on competition in airport operation services and the consequences for competition of any action we might take" [1.19], we disagree with the CAA's overall conclusion that providing regulatory support to enable Heathrow to clawback losses experienced in 2020 and 2021 via a RAB adjustment will not have a material impact on airport competition in the UK [Appendix J].

The CAA does not seem to be taking proper account of the competitive environment in which UK airports are operating to attract airlines and routes, of which Heathrow is a dominant player alongside other major European airports, as well as other UK airports. While Heathrow does not experience meaningful competitive pressure from other UK airports, its future development clearly has the potential to influence the growth prospects of other UK airports.

Our view is consistent with the finding of the Competition Commission (2009) that Heathrow has the potential to constrain other airports in terms of their prices and/or the quality and range of services they offer, even if those other airports do not constrain Heathrow. The Commission concluded that Heathrow's position as the only significant hub airport in the UK gave rise to an Adverse Effect on Competition; we note in this regard that Heathrow's share of UK long-haul traffic has not changed since the Commission's 2009 report.

The CAA's justify their assessment on the basis Heathrow is already so dominant that any additional expenditure facilitated by a RAB adjustment would essentially be immaterial to passengers or airlines. The converse of this is that HAL's ability to continue to invest in facilities and service quality whilst other airports have had to pause or cancel investment as a result of the pandemic will further strengthen Heathrow's dominant position over the long term and constrain competition.

Whilst price cap regulation will limit the upside benefit to HAL, it will not mitigate the competitive impact upon other UK airports that are competing for airlines and routes. This is particularly the case for other airports in the London system and Manchester Airport which plays a hub role for the North of England.

We also disagree with the CAA's conclusion [J6] that increases in Heathrow's price cap could disadvantage the airport from a competition perspective. Heathrow's current price cap is substantially below the market clearing level, so any increase associated with the RAB adjustment is unlikely to have a significant impact on the airport's competitive position.

The CAA also state that capacity constraints will limit Heathrow's competitive advantage. Whilst this will be the case in the absence of expansion, if HAL's continued ability to invest as a result of a RAB adjustment helps to unlock capacity expansion this will result in a fundamental and enduring impact on the UK aviation market. Although expansion policy is subject to issues beyond the CAA's remit, it should remain within any consideration of overall competition impacts.

The type of support HAL is requesting is not available to any other UK airport, and we continue to believe the proposed RAB adjustment would have long-term implications for the UK airports market. The CAA need to give due consideration to the long-term impact on competition and market structure of providing sizeable financial support to an airport with substantial market power, particularly at a time when other UK airports are experiencing significant financial pressures.

We would welcome the opportunity to provide further inputs into the CAA's continued assessment and to be kept up-to-date with progress on this matter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'TH', written over a light blue background.

Tim Hawkins
Chief of Staff, MAG