

YOUR LONDON AIRPORT

Gatwick

14 MARCH 2017

Stephen Gifford
Civil Aviation Authority
CAA House
45-59 Kingsway
London WC2B 6TE

Dear Stephen,

RE: CAP1510 Economic Regulation of the new runway and capacity expansion at Heathrow airport: consultation on CAA priorities and timetable

We welcome this opportunity to comment on the CAA priorities for regulation of new runway and capacity expansion at Heathrow, and would highlight the undernoted points.

1. The potential impact of Heathrow's charges on airport competition

The consultation indicates that, insofar as traditional regulatory topics are considered, the CAA will be taking a generally balanced approach. We are however concerned about the omission of competition from the priorities identified by the CAA. Unlike previous price controls, H7 could set in motion investments which would add significant spare capacity at Heathrow, while at the same time substantial public money is invested in complementary surface access infrastructure. Due to Heathrow's position as a dominant airport with substantial market power, this raises significant concerns about the potentially adverse impact on competition. The CAA should be focussed not only on the potential for excessive prices to end users (particularly in the short term), but also the impact of chosen price paths for the position of other airports. Moreover, there may also be scope for longer term exclusionary abuses affecting the ability of and incentive for, other airports to invest and compete with Heathrow.

These risks include the potential for Heathrow to adopt a discriminatory charging structure in order to attract existing traffic from other UK airports which, if not objectively justified by cost, could amount to predatory pricing. This is particularly relevant in light of the additional domestic routes which Heathrow has committed to deliver by 2030¹. We also note Heathrow's difficulty in achieving good load factors for short haul and domestic flights at current airport charges², and therefore see a temptation for them to adopt a charges structure unrelated to costs.

2. Ensuring that Heathrow delivers the NWR scheme that was selected

The Heathrow North West Runway was recommended to Government by the Airports Commission over Gatwick's second runway on the basis of a Heathrow scheme which would deliver long haul business connections which would be attracted by a premium facility with, for example, greater passenger facility areas than the Gatwick scheme. We would expect the CAA to challenge Heathrow

¹ See draft NPS paragraph 3.2

² Heathrow Airport, Airport Charges Structural Review, Decision Document, 5 August 2016. Page 6-8

YOUR LONDON AIRPORT

Gatwick

to ensure that, in looking for economies on scheme costs, the scheme is still credibly able to deliver the expectation set by Government and is consistent with the basis on which it was selected over Gatwick.

The adoption of a less elaborate scheme designed, for example, to cater for low cost long haul or significant low cost short haul operation (by for example lower quality or smaller terminal facilities, lesser transfer facilities, or otherwise inferior substitutes) would in effect mean acknowledging that the basis for selection was incorrect and that Gatwick's scheme would deliver greater benefits.

3. Ensuring that Heathrow's charges are kept flat in real terms

It is clear that the selection of Heathrow's proposal was based on the requirement from Government and the CAA that charges be kept flat in real terms while delivering the chosen scheme.

Ensuring that charges are kept flat in real terms must therefore be one of the CAA's priorities. Failure to achieve this would represent a serious deficiency in the DfT's assessment of the advantages of Heathrow, however attractive such a pricing scenario might be to Gatwick as a competitor.

4. Surface access costs and cost allocation

We furthermore consider that the CAA should bear in mind the impact on competition in the policies adopted in relation to surface access infrastructure. The CAA has, as in the past, a key role to play in determining the allocation of these costs between Heathrow and the Government. We recognise the regulatory predisposition to keep aeronautical charges low and hence to rely to the greatest extent possible on Government funding for road and rail access to the airport. It is however important to note that a cross-subsidy, unless it is made available to the market as a whole, would distort the market for Airport Operations Services, and potentially discourage investment at other London airports or Birmingham. The lack of clarity about Heathrow's surface access requirement and costs, which could be very substantial, means that ascertainment and allocation of surface access costs should be one of the CAA's priorities.

Please do not hesitate to contact me if you want to discuss any aspects of this response.

Yours Sincerely



Mattias Bjornfors
Economic Regulation Manager