

SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

MEASURE SET	Regulatory	
MEASURE TITLE	Reform CAA powers to regulate airport charges	
MEASURE SUMMARY	This measure concerns removing CAA regulation from London airports.	
MEASURE INVOLVES	<input checked="" type="checkbox"/> Behavioural Change <input type="checkbox"/> Infrastructure Change <input type="checkbox"/> Operational Change <input checked="" type="checkbox"/> Regulatory Change <input type="checkbox"/> Technical Change <input checked="" type="checkbox"/> Policy Change	
WHAT DOES THIS ADDRESS? <p>Currently the CAA sets caps on the prices that the three main London airports can charge airline customers. One of the objectives of the price cap is to avoid the airports that are perceived as having high market power, from abusing a monopoly position. However, there are concerns that the price caps that are set do not reflect market prices and can have a distortive effect; especially concerning those segments of the air transport market where there is competition between airports.</p>		
WHAT WOULD BE DONE? <p>Changes would be made to legislation, change the remit of the CAA. Proposals include removal of London airports from price regulation, setting LHR price regulation at a level for a competitive return, introduce a far higher threshold for intervention to protect airport users, or tightening charges at both LHR and LGW.</p>		
WHAT IS THE IMPACT? <p>The impacts would be expected to be:</p> <ul style="list-style-type: none"> Increased competition between airports. Support the capacity of all airport owners to fully fund future expansion May result in more efficient allocation of airport usage based on demand May have positive impacts on emissions No capital costs. Increased operating costs for airlines using LHR. Reduced costs to Crown 		

MEASURE SET:	Regulatory	Short Term	<input type="checkbox"/>
MEASURE TITLE:	Reform CAA powers to regulate airport charges	Medium Term	<input checked="" type="checkbox"/>

PROPOSAL SUMMARY

Proposed by:	Gatwick (019), Heathrow (024), HACAN (021), IOD(39), GACC(020), London First(047), LSCC(048), MAG(050), Tfl(067), Virgin Atlantic(069)		
Proposal: REG-CAA-1	<p>This measure comprises the basic proposal to change the remit of the CAA to:</p> <ul style="list-style-type: none"> Remove price cap regulation from the London airports. <p>Given the legislative changes and challenges that might be expected, it is anticipated that this measure could only be invoked in the medium term.</p>		
Approach	<p>The approach is based on Removing CAA price regulation from London airports given the competitive ownership between LHR, LGW, STN, LTN and LCY. Changes would be required to legislation to reduce or remove the regulatory powers of CAA over airport charges. Options proposed are:</p> <ul style="list-style-type: none"> Removal of LGW from pricing regulation Removal of LGW and STN from pricing regulation from April 2014 Set LHR price regulation at a level for a competitive return Removal of LHR, LGW and STN from pricing regulation but introduce a levy to recover “excess profits” for the public benefit or move to a dual till system and ensure that higher charges did not result in excessive profits, use excess revenue to fund a new airport Tightening charges at both LHR and LGW 	<p>Stated Capital Cost: Not stated (unlikely to be any)</p> <p>Capacity (mppa): None</p> <p>Capacity (atm): None</p>	
Benefits	<p>The main benefits available are:</p> <ul style="list-style-type: none"> Promotion of increased competition between airports for airlines, as airport charges become guided more by market responses of airlines, than the regulator. Lower charges at LGW could result in more efficient outcomes, as the most desired airport (LHR) prices some users onto airports with spare capacity. Enhances ability of LHR to make capital investments. Releasing LGW and STN from price regulation will enhance their ability to compete with each other and LHR This could delay the need for additional capital expenditure, but also support the capacity of all airport owners to fully fund future expansion. May have effect of shifting demand and congestion efficiently. 		
Issues & Risks	<p>The main issues and risks are:</p> <ul style="list-style-type: none"> Risk of breach of the Chicago Convention if increases are substantial and not cost related Possible that none of the price regulated airports lower charges. LHR extracts monopoly rentals from network carriers which could not economically operate out of alternative UK airports, resulting in increased fares and reduced competition Undermines the UK as an airline hub by disadvantaging airport charges at LHR compared to CDG, AMS and FRA. Introduction of a levy to recover “excess profits” likely to deter increases of charges by airports that reach such a threshold. 		
Mitigations	<p>Remove regulation from LGW and STN first, as there is evidence of competition between those airports and with others (LTN etc).</p> <p>Maintain safeguards and threat of regulation to dissuade excessive charging</p>		
Dependencies	<p>The key dependencies are:</p> <ul style="list-style-type: none"> Outcomes are dependent on the airport companies’ responses (HAL, GAL, MAG and the other airports that compete with them) to changes to price regulation, and airlines’ responses. HAL’s willingness to reinvest increased revenues in upgrading the airport. Airports with significant volumes of LCC traffic are more likely to respond to competitive pressure from other airports, than those with full service carriers. Heathrow Airport in particular is assumed to revise its prices to maximise profits and result in some airlines relocating to Gatwick. It is plausible that some airlines may simply choose to abandon flying to the UK altogether if LHR is too expensive and insufficient traffic is seen to be able to be attracted to alternatives. 		

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ASSESSMENT SUMMARY

Strategic Fit	<p>For LGW and STN removal of price regulation may not be inconsistent with long term policy options. However, it could undermine role of LHR as hub airport depending on Heathrow Airport's market response.</p> <p>Could enable a more competition and market oriented demand management by airports through airport charges. Could accelerate the ability of existing airports to fund expansion and improvements.</p> <p>Airport charges are a distinct airport regulatory issue that could be consider in parallel to that of the Airports' Commission.</p>
Economy	<p>May result in more efficient allocation of airport usage based on demand, but will likely result in transfers from LHR airport users to LHR shareholders.</p> <p>Removal of airport price regulation will result in market oriented pricing of airports, allowing more efficient use of infrastructure (HACAN)</p> <p>Reforming regulation of LHR could increase the incentive to invest in the airport that would improve resilience and enhance security capacity. (Heathrow).</p> <p>Removal of price regulation at LGW will improve the incentives on LGW to attract traffic and result in lower charges for its customers (Source: LGW)</p> <p>May produce modest improvements in efficiency between LGW, STN and other airports, and result in reallocation of demand, reducing producer costs and airfares on competitive routes</p>
Surface Transport	Not stated.
Environment	May have positive impacts on emissions if demand shift from more congested to less congested airports due to market oriented pricing.
People	More competitive airport charges at LGW and STN may have modest impacts on airfares. Higher airport charges at LHR are likely to increase airfares for flights at LHR.
Cost	Increased costs to users of LHR. Possible increased costs to users of LGW at times of peak demand only. Possible of lower charges at LHR, LGW and STN at off peak times due to higher competition. Reduced costs to Crown due to smaller role for CAA.
Operational Viability	No operational impacts identified
Delivery	Would require legislative change to the mandate of the CAA to remove economic regulation of LHR, LGW and STN.