

SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

MEASURE SET	Financial Incentivisation	
MEASURE TITLE	Airport Related Charges	
MEASURE SUMMARY	This measure involves managing the capacity of airports through differential charging at airports, including deregulation of airport charges and airport congestion charging.	
MEASURE INVOLVES	<div> <input checked="" type="checkbox"/> Behavioural Change <input type="checkbox"/> Infrastructure Change </div> <div> <input type="checkbox"/> Operational Change <input checked="" type="checkbox"/> Regulatory Change </div> <div> <input type="checkbox"/> Technical Change <input checked="" type="checkbox"/> Policy Change </div>	
WHAT DOES THIS ADDRESS? <p>It might be argued that there is currently inflexibility in capacity management tools, due to the regulation of airport charges for the benefit of the airlines / travelling public, which then artificially reduces the pricing of the most popular airports to a sub-optimal market level. This is a contributory factor to congestion.</p> <p>Related to this, there is no reflection of charging for congestion at the most affected airports, and there is no flexible disincentive mechanism for pricing / managing access to slots at congested airports.</p>		
WHAT WOULD BE DONE? <p>The proposal would be to deregulate CAA-set airport charges at LGW and STN, or at all London airports.</p> <p>Additionally, a congestion charge would apply at congested airports, or discounts on charges at less congested airports. Where this might be achieved through Differential APD, please refer to that template.</p>		
WHAT IS THE IMPACT? <p>Deregulation, with the three main London Airports in competition with each other:</p> <ul style="list-style-type: none"> • promotes capacity management, • increased competition between airports, and • more efficient outcomes. <p>Congestion charging would have a similar effect, but equally might benefit larger regional airports such as Manchester and Birmingham, potentially freeing capacity at congested airports.</p>		

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MEASURE TITLE:	Airport Related Charges	Medium Term	<input checked="" type="checkbox"/>

PROPOSAL SUMMARY

Proposed by:	Birmingham International Airport (009), Exeter City Council (017); GACC (020); LSCC (048); MAG (050); NESTRANS (055); Newcastle airport (057); North East Chamber of Commerce (058); South East LEP (064); West Mids Planning & Transport Sub-Committee (072); Western gateway (073); Kent County Council (075)		
Proposal: FInc-AptC-1 FInc-AptC-2	<p>This measure covers the management of airport capacity through differential charging at airports, with the following identified specifically:</p> <ul style="list-style-type: none"> Deregulation of airport charges APD / Non APD congestion charging 		
Approach	<p>The approach is:</p> <ul style="list-style-type: none"> The principal of CAA regulation of airport charges is questioned, either through deregulation of LGW and STN or removal of charge caps at <u>all</u> London airports A congestion charge is suggested to deal with airports at capacity – some submissions indicated an 85% threshold – where additional charges would apply at congested airports, or discounts be allowed at less congested airports. This charge could be through revenue-neutral differential APD (for which see proposal APD-DIF-1) or standalone. 	<p>Stated Capital Cost: Not stated</p> <p>Capacity (mppa): No change</p> <p>Capacity (atm): No change</p>	
Benefits	<p>The main benefits available are:</p> <p>Deregulation of charges allows airports the opportunity to charge “market” rates, managing capacity through airline willingness to pay for access. Promotion of increased competition between airports for airlines, as airport charges become guided more by market responses of airlines, than the financial regulator. This could result in more efficient outcomes, as the most desired airport (LHR) attracts most profitable routes being prepared to pay the higher charges for hub access, making slots available as other similarly beneficial routes transferred to lower cost airports.</p> <p>Congestion charging would have a similar effect, through adding a supplementary cost to use of congested airports, resulting in movement of some slots away from the congested airport, potentially freeing capacity at that airport.</p>		
Issues & Risks	<p>The main issues and risks are that LHR could be seen to profit from network carriers which could not economically operate out of alternative UK airports, resulting in increased airfares due to airport charges and reduced competition and frequencies of services. One submission suggests that such market charging should not be allowed to result in profit increases, although it is unclear how such charge restrictions could be allowed.</p> <p>Dependent on European charging regimes could disadvantage UK hub compared to CDG, AMS and FRA, as LHR charges might encourage movement to other hubs rather than less congested UK airports.</p> <p>Risk of breach of ICAO treaty (most likely with LHR)</p>		
Mitigations	<p>MAG suggests a mechanism that limits profit taking from deregulating charges.</p> <p>Deregulation of STN and LGW only. No environmental mitigation is identified for these options.</p>		
Dependencies	<p>There key dependencies are:</p> <ul style="list-style-type: none"> Regulatory – CAA charges Air Passenger Duty – differential APD 		

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ASSESSMENT SUMMARY

Strategic Fit	Allowing higher charges at certain airports to address congestion and connectivity issues delivers outcomes in line with the Aviation Policy Framework, although the change to current customer value focus of financial regulation is at odds with current Government policy for capacity enhancement. Congestion charging through APD could be revenue neutral.
Economy	Concentration of more profitable routes could enhance hub connectivity to routes that support UK economic growth. However, charging 'out' of smaller carriers could have negative effect. If routes migrate to other airports, making efficient use of available London capacity (e.g. Stansted) then overall growth will have benefits. Not quantified.
Surface Transport	Dependent on airports where traffic is redistributed, enhanced surface access might be required if measure is effective.
Environment	No significant impact of hub, as no additional movements gained although some changes to emissions and noise possible dependent on fleet mix supported by market moves.
People	Congested airports would be charging the airlines, and thus ultimately, the passenger more. This will have effect of limited accessibility for certain groups.
Cost	There would be limited cost to the airports, but airlines would face increased costs as congestion was 'charged'. Differential APD could be designed to be cost neutral to the exchequer, but meaningful in terms of impacts on regional and non hub airports.
Operational Viability	No change.
Delivery	Would require review of regulation, and/or APD.