

Competition between airports – what next?

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Overview



- Some background
 - Industry
 - Economic regulation
 - Recent reviews
- Outcome of recent reviews – emerging consensus?
- UK regional airport competition
- CC March 2009 report
- Remaining challenges
 - Regulatory approach
 - Reform of the statutory regime
 - Other challenges
- What next?

Background: industry



- In 2008/09, 229m passengers travelled and 2.2m tonnes of freight transported through UK airports
- Around 50 UK airports with annual turnover above £1m
- Four airports serving more than 20mppa: Heathrow (65.9m); Gatwick (33.1m); Stansted (21.6m) and Manchester (20.4m)
- BAA privatised (as BAA plc) in 1986
- BAA Ltd currently owns Heathrow, Gatwick and Stansted, as well as Glasgow, Edinburgh, Aberdeen and Southampton

Background: economic regulation



- Under the Airports Act 1986:
 - Secretary of State for Transport decides which UK airports are 'designated'
 - CAA must 'regulate maximum amounts set by way of airport charges' at designated airports for 5 (or 6) year periods, having first made a reference to the CC
 - on receipt of a reference, the CC must advise the CAA on maximum limits, and determine whether airports have operated against the public interest; where they have, the CAA must impose a remedy
- In relation to airports, CAA has no concurrent powers, so competition law applied by OFT/CC

Background: recent reviews



- Review of price controls/designation status
 - Heathrow & Gatwick (Dec 05 – Mar 08)
 - Stansted & Manchester de-designation (Jan 07 – Jan 08)
 - Stansted price control review (Jan 07 – Mar 08)
- Market investigation
 - OFT market investigation (May 06 – Apr 07)
 - CC market investigation (Apr 07 – Mar 09)
 - CAT appeal (May 09 –)
- Approach to economic regulation
 - HoC Transport Committee review (Oct 05 – Nov 06)
 - HoL Select Committee on Regulators (Nov 06 – Nov 07)
 - Pilling review (Sep 07 to Jul 08)
 - Government review of Airport Regulation (Apr 08 –)

An emerging UK consensus?



- Almost all these reviews have considered airport competition
- A degree of consensus has emerged:
 - Airports are not natural monopolies
 - Airports can and do compete
 - Airports can, nevertheless, enjoy substantial market power
 - Where substantial market power exists, there should be mechanisms to address it

Regional airport competition



- Growth
 - strong regional growth (1990: 35mppa; 2008: 99mppa)
 - rate of regional growth exceeded rate of London airport growth (1990 – 2008: 188% regional growth; 1990 – 2008: 102% London growth)
- Service quality
 - Available evidence suggests regional airport service performance matches and/or exceeds performance of London airports
- Greater range of destinations:
 - International scheduled destinations increased substantially (e.g. Bristol airport 5 to 26 (1990 to 2008), Liverpool airport 1 to 24 (1990 to 2008))
 - Much more long haul available too – in 1990 only one regional airport served US; in 2008, 6 airports serve the US

Competition Commission 's March 2009 report



- Common ownership – inter alia – has an adverse effect on competition
- BAA should therefore be required to divest:
 - Gatwick
 - Stansted
 - one of either Edinburgh or Glasgow
- Also the CC articulated an 'expectation' that economic regulation for Gatwick and Stansted would be 'transitional'

Remaining challenges

- Post-break up, there is a clear opportunity for effective competition between SE airports to develop
- However, for competition to be as effective as it can be, some challenges remain to be addressed:
 - establishing clear principles for the assessment of the degree of market power enjoyed by airports, and the appropriate regulatory response;
 - ensuring – as far as possible – that any new framework of economic regulation allows competition to develop
 - checking the growth (or maintenance) of other external restrictions on competition

Assessing market power & the appropriate regulatory response



- Defining airports appropriately
- Two – or three – sided market
- Taking into account all of the sources of competitive pressure facing an airport:
 - from neighbouring airports
 - from non-neighbouring airports
- Defining the short and long term competitive price levels
- Distinguishing between pricing power:
 - derived from scarcity
 - derived from market power

Establishing a clear, stable and enduring statutory framework



- **Clear objectives** - the economic regulator should have a duty to protect the interests of the consumer – both existing and future – against the abuse of market power
- **Independence** – i.e. with well-defined – and distinct – roles for Parliament, Government of the day, the economic regulator, the regulated airports and airlines
- **Durable**, i.e. as far as possible defined in the statute, providing stability necessary for long term investment
- **Adequate & flexible powers** – the economic regulator should have sufficient power to address the risk of market abuse, and the flexibility to apply these powers proportionately
- **Accountable** - the economic regulator should be properly accountable

Other (potential) restrictions on competition

- UK bi-lateral international agreements
- Changes in European requirements
 - Requirements for slot co-ordination
 - Airport Charging Directive or a successor
- Within UK:
 - Unduly restrictive planning interventions
 - Unduly restrictive interventions on environmental grounds

What next?

- CAT appeal outcome – by the end of the year?
- CAA proposing to consult in October 2009 on:
 - approach to assessing competition
 - appropriate regulatory responses
- DfT next steps on review of Economic Regulation expected in November 2009
- Beyond this, it all depends ...