



Ian McNicol
Civil Aviation Authority
CAA House, 45-59 Kingsway
London WC2B 6TE

10 July 2014

Dear Ian,

Manchester Airports Group (M.A.G) welcomes the opportunity to respond to the CAA's consultation on 'Regulatory treatment of issues associated with airport capacity expansion'. M.A.G owns and operates four airports in the UK (Manchester, London Stansted, East Midlands and Bournemouth) and handles some 42 million passengers per annum.

M.A.G's airports have significant spare capacity available to meet growing demand over the next decade, and they will play an important role in the period before any new runway capacity can be delivered by offering increased choice and value to consumers. Looking further ahead, the Airports Commission has recognised that Stansted will be an important option for new runway capacity in the period after 2030.

The Competition Commission's 2009 decision to require BAA to divest Stansted, Gatwick and Edinburgh has significantly strengthened airport competition in the UK. New ownership has brought about positive changes in the way these airports are managed, through a wide variety of commercial and service innovations. The changes have already driven significant benefits for users. Traffic volumes at Stansted are now growing again, commercial relationships with key customers are positive and productive, and substantial investment is being carried out to improve customer satisfaction.

One of the Commission's primary reasons for requiring the divestment of Stansted and Gatwick was to create competition in the planning and delivery of new capacity; the Commission found that BAA's ownership of the three main London airports had had an adverse on competition in this crucial area. In the Commission's view, users would benefit enormously from separate ownership because it would drive airports to compete to deliver new runway capacity.

As such, it is critical that the CAA maintains a strong focus on competition issues as it considers the most appropriate way to regulate investment in new runway capacity. The CAA must remain alert to the potential for its own regulatory policy to disrupt and distort the recently established competitive dynamic between the London airports - something that would itself have significant adverse on competition and hugely negative consequences for users.

Olympic House
Manchester
M90 1QX
United Kingdom

Switchboard: +44 (0) 8712 710 711



We welcome the CAA's intention (para 2.3) to further the interests of users by 'delivering, as far as possible, an outcome that broadly approximates to that of a competitive market in the long-run'. In simple terms, the delivery of new runway capacity should reflect the outcome of a competitive process and reflect users' preferences in terms of timing, cost and quality.

It would be inappropriate for the CAA to adopt policies that artificially favour or support runway development, to the detriment of other airports seeking either to make full use of existing capacity or deliver new runway capacity of their own (either in the short or long term). Put simply, airport and airline competition will be distorted if the CAA applies more favourable regulatory terms to the development and operation of new capacity, than those that apply to existing capacity (whether regulated or not). The way the CAA regulates investment in new capacity should not insulate or protect an airport seeking to deliver new capacity from risks that it should properly face, particularly those risks that other airports face on an on-going basis.

Instead, the proper focus for the CAA should be on identifying and addressing the aspects of its own regulatory framework that have the potential to impact adversely the delivery of proposals for new runway capacity. For example, it should be for the relevant airport operator, not the CAA, to seek agreement with Government on the treatment of costs incurred in taking forward runway proposals. Similarly it should be for the airport operator to address as far as possible the financial, cost, construction and demand risks associated with such projects. In our view, these are not central considerations for the CAA to address.

The CAA should similarly be concerned by the potential for significant competitive distortions to be created by overt Government involvement in the delivery of new runway capacity. Indeed, it would be perverse for the Airports Commission to have selected its shortlisted options for the second phase of its work based on commercial viability criteria, only for the Government to then provide direct financial support to enable the final option to be delivered. We will keep these issues under review and make representations to Government as necessary to ensure a competitive level-playing field is maintained. These concerns also apply equally to the question of whether Government might have a role in providing financial assistance to address inter-generational issues.

The case studies included in the consultation document provide some useful insights into the specific circumstances face by each of the projects, but they provide very limited insight into how regulators should regulate such investments in competitive markets where the delivery of new capacity has the potential to have adverse impacts on other market participants. In our view, competition issues need to have much greater prominence in the CAA's work on this area.

We were disappointed, as an airport operator materially affected by proposed expansion at Heathrow or Gatwick, not to have been invited to the CAA workshop on 14 May. This appears to reflect the CAA's narrow focus to considering the right approach to regulating investment in new runway capacity. As described above, we believe that it is crucial that expansion takes place in a competitive framework and as such the impact on competition must be a central consideration for the CAA. We look forward to working with the CAA on these issues as it develops its thinking and in response to the planned consultation later this year.

Should you have any queries or if there is anything you wish to discuss please do not hesitate to get in touch.

Yours sincerely

A handwritten signature in black ink, appearing to be 'TH', written in a cursive style.

Tim Hawkins
CORPORATE AFFAIRS DIRECTOR