

Ms Abigail Grenfell
The Civil Aviation Authority
CAA House, 45-59 Kingsway
London WC2B 6TE

22nd July 2013

Dear Abigail,

Re: Gatwick Airport Limited – Proposed Licence Conditions under Section 18 of the Civil Aviation Act 2012 in relation to Price Commitments

Thank you for your letter of 8th July 2013, regarding Price Commitments at Gatwick. This letter does not seek to explore the matter in detail, but makes a number of broad points that the CAA should consider.

The first and overarching point is that **market power** cannot be negotiated away. It is entirely rational that airlines would accept a least-worst outcome, such as price commitments, if they do not consider that economic regulation will deliver a better solution. Therefore, the questions for the CAA are threefold: do price commitments represent a competitive outcome; why have airports expended so much effort on a deregulation agenda; and how can price commitments be cemented into a licence condition?

It is unclear how the CAA's proposal of a **temporary price freeze** would be effective. If the CAA is conducting an investigation, then this would likely be into some form of price abuse and so, by definition, a temporary price freeze would simply cement this abuse until such time as the CAA had concluded its investigation. The only way a temporary price freeze could be effective would be if it locked in prices as they were prior to abuse.

On **pre-financing**, the CAA says *"[it] is concerned that [planning and development costs would be passed through to charges and] this could mean users would pay in advance for the planning, development and construction costs of a second runway."* Costs for the abortive SG2 project are passed through to charges – and that the CAA proposes to cement these into the Q6 regulatory settlement at Stansted, so Stansted users will be penalised in a way that is deemed inappropriate at other airports. Clearly, the CAA must remove these costs from the Q6 Stansted price cap.

Finally, in terms of **operational resilience**, Ryanair notes that under EC261, airlines have a right to pursue third parties for reimbursement of EC261 liabilities; however, in all but the most extreme of cases, it would be, of course, prohibitively expensive to pursue such an option.¹ If the CAA genuinely believes that airports should be committed to promoting passenger experience, then it must embed the objectives of EC261 into airports' licence conditions and ensure that they are required to reimburse airlines for EC261 liabilities, which arise from their failures. For example, these would include runway closures, baggage system failures and so forth.

I hope this note is useful and would be happy to further discuss any of these points.

Yours sincerely,



Ian Clayton
General Manager, UK Operations

¹ Regulation (EC) No 261/2004 of the European Parliament and of the Council of 11 February 2004, Article 13.