



FAO: Robert Toal
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BY EMAIL: economicregulation@caa.co.uk

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Dear Robert,

CAP 1871 - Economic Regulation of Heathrow Airport Limited: policy update and consultation on the early costs of capacity expansion

Manchester Airports Group owns and operates three strategically important airports in the UK (Manchester, Stansted and East Midlands), serving over 60 million passengers per annum. We continue to invest in our airports to maximise the use of their capacity, enhance our capabilities and support the wider development of the UK aviation market.

The CAA is consulting on the 'Economic Regulation of Heathrow Airport Limited: policy update and consultation on the early costs of capacity expansion'. We welcome the opportunity to comment on the CAA's proposals ahead of final decisions being made on these issues.

We have a particular interest in how the CAA is proposing to treat capital investment that would enable Heathrow to accelerate the delivery of new capacity through a "modification to HAL's licence that would support stronger and more formal governance arrangements for the preferred programme of early Category C costs" (paragraph 16) and as detailed in Appendix F. Specifically, the CAA is proposing to add efficiently incurred costs to HAL's RAB (paragraph 2.65) as detailed in Appendix E to enable capacity to be delivered earlier than it would otherwise would have been.

The CAA recognises the advantages for users of new capacity being available more quickly at Heathrow, in terms of preventing future consumers from 'experiencing higher airfares, reduced choice and lower service quality' (paragraph 1).

The CAA is required to carry out its functions in a way that promotes competition in the provision of airport operation services. As such, it will be important for the CAA to consider and take into account any distortion to competition between UK airports that would be likely to arise as a result of its proposed approach.

It is clear that absent the CAA's proposed policy (to enable Heathrow to accelerate the delivery of new capacity and recover costs through the RAB), Heathrow would need to wait until it had secured planning consent before committing such significant sums to the early stages of the expansion project. The CAA's preferred programme (Scenario 2a) will enable Heathrow to accelerate the delivery of new capacity by several years.

The CAA's proposal effectively removes the commercial risks that most businesses would face and consider in equivalent circumstances, i.e. whether to begin investing in the delivery of a project that has not yet secured planning permission. It is highly unlikely that other UK airports would be in a position to commit such resources in this speculative way because the risks and timescales associated with the planning system would mean that – absent an underwritten position such as that proposed by the CAA for Heathrow – they would have to hold back this investment until they had secured permission.

As noted above, the CAA has a duty to promote competition and therefore it is important for the CAA to consider the potential impact of its decision on competition between airports. Bringing forward HAL's cost recovery and project delivery timelines would have a distortive impact on competition if it alters passenger / airline decisions or gives HAL another form of competitive advantage, including the ability to deliver new capacity more quickly.

The CAA has not considered this adverse impact in its assessment of its proposed approach, and as a result it has not taken these impacts into account in considering the range of potential approaches. We would encourage the CAA to consider these issues carefully before finalising its policy approach, particularly in the context of recent challenges to the expansion programme.

A range of options should be considered to ensure that Heathrow faces the same risks and issues that other airports face in deciding whether to proceed with early investment in delivering new capacity. When considering these policy options, the CAA should take into account the impacts of its policies on both the users of the relevant airport and the users of other airports in the wider UK market.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TH', with a large, stylized flourish.

Tim Hawkins
Chief Strategy Officer