



Economic Regulation in the UK aviation sector

Constructive engagement and negotiated settlements

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**Overview of the economic regulation of
aviation in the UK**

Economic regulation: overview

The Civil Aviation Act 2012 (CAA12) and Transport Act 2000 (TA00) provide the CAA with powers to regulate airports with significant market power and air traffic management services.

We also have certain powers, including under the Airports Charges (Amendment EU exit) Regulations, as well as concurrent powers with the CMA to enforce competition law in relation to the provision of airport operation services.

The Secretary of State for Transport has powers to provide guidance to the CAA under CAA12 and on environmental objectives under TA00, as well as the power to request advice pursuant to section 16 of CAA82.

Our main activities:

- **setting price controls and incentives for Heathrow Airport Limited (HAL) and NERL (the UK's air traffic service provider).**

Other work:

- lighter touch regulatory framework for Gatwick (because it is under greater competitive pressure than Heathrow), licence and other enforcement work, and competition policy/enforcement.

Economic regulation of Heathrow airport

Constructive engagement at Heathrow airport



Structured approach to engagement as part of the price control review process.



HAL and airline discussions, with CAA observing / facilitating.



Covers all aspects of HAL's business plan and the CAA's initial proposals.



At the H8 review this includes 4 rounds of engagement – pre-business plan, post business plan, post CAA initial proposals, etc.



Only very limited agreement to date – e.g. aspects of the quality of service regime.



The 'commercial deal' for 2020 and 2021

In 2029 the CAA made an initial proposal in relation to extending HAL's H7 price control for two years to allow for further progress on capacity expansion.

Savings in financing costs from a lower cost of capital and efficiency gains were to be passed to consumers in the form of a reduction in HAL's regulatory asset base (RAB).

HAL proposed and airlines agreed to a commercial deal where airlines would be given price discounts rather than a RAB reduction.

In simple NPVs it is not clear these arrangements were in the interests of consumers or airlines.

But the CAA took a broader view that it was in the interests of consumers to encourage broader commercial arrangements and so accepted the 'commercial deal'.



“The Director of Strategy at an airline is the person who thinks about the day after tomorrow”.

Capacity expansion in 2026

HAL has published a report by Frontier Consulting suggesting that airlines earn billions of pounds per year in excess profits / scarcity from capacity constraints at Heathrow and even if airport charges rise because of capacity expansion passengers will benefit from the erosion of these scarcity rents.

This is strongly contested by airlines that say that analysis of the financial position of airlines does not support the existence of significant scarcity rents, HAL's is inefficient and too expensive even without capacity expansion, its airport charges are already the highest in the world and more than doubling these charges to support expansion would risk 'breaking UK aviation'.

As things stand there is not much sign of anything constructive about the engagement between the airport and airlines on these matters ...

Economic regulation of Gatwick airport

The commitments framework



GAL proposes a package of tariffs, investment and quality of service to airlines



This is then discussed and refined through the process of engagement and then GAL presents to the CAA where it has got to with all these matters.



The CAA then consults on whether this is in the interests of passengers and suggests changes where appropriate.



After considering representations on these matters the CAA then brings forward a modification to HAL's licence to put the package into effect.

Bilateral contracts



In addition to the process of engagement on the published tariffs the main airlines typically have long-term bilateral contracts with GAL which means they pay less than the published tariffs and receive bespoke investment/service packages.



These contracts are at least as important as the wider constructive engagement process.

Protecting consumers (1)

We consider a relatively broad range of factors, consistent with a “balanced score card” approach, and the delivery for consumers over a reasonably wide range of issues, as summarised below.

The relative level and trend in GAL’s **airport charges**.

Its **profitability** and **efficiency** (which may indicate if it is exploiting its market power at the expense of consumers).

The **quality of service** provided to passengers and airlines.

The effectiveness of the **special assistance services** provided to passengers.

GAL’s performance in **coordinating activities across the airport** campus for the benefit of consumers (including the arrangements it has for the provision of air traffic control services and the efforts it has made to support effective ground handling arrangements).

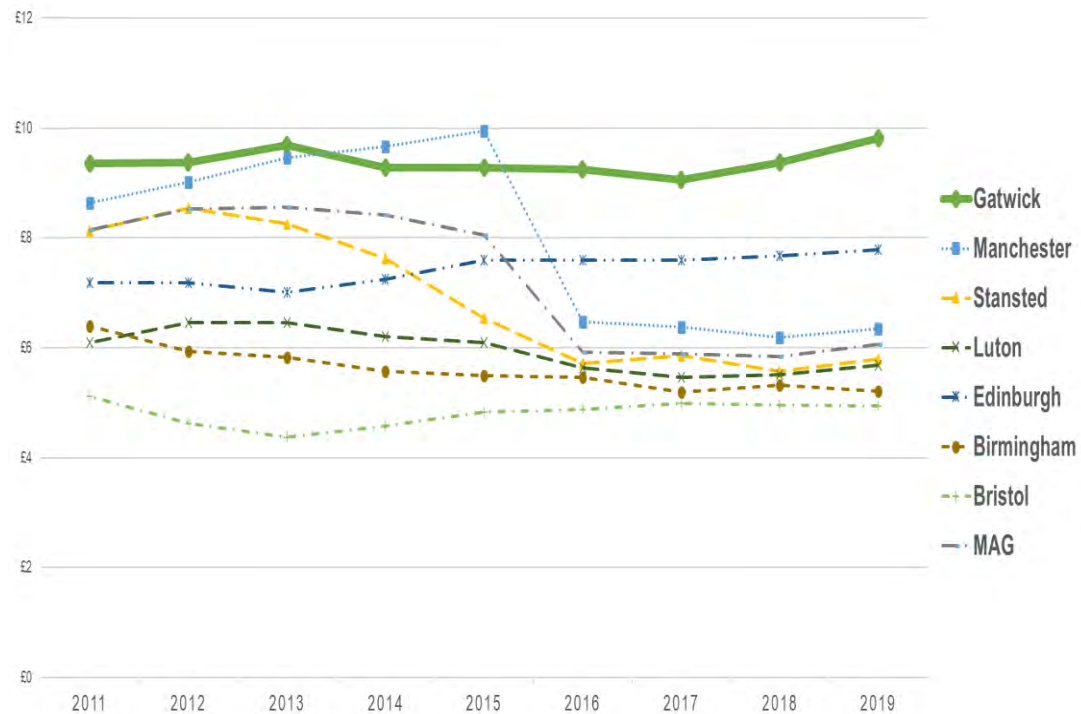
Its progress in being able to negotiate longer-term **commercial deals** with its airline stakeholders. This should provide an indication of GAL’s willingness to deal with airlines on appropriate commercial terms, which will ultimately benefit consumers.

GAL’s proposals for, and progress with, **the development of its northern runway**, that would benefit consumers by increasing resilience and providing additional capacity.

Its **environmental performance**, consistent with our statutory duty to have regard to the need to secure that a licensee is able to take reasonable measures to reduce, control and/or mitigate adverse environmental effects.

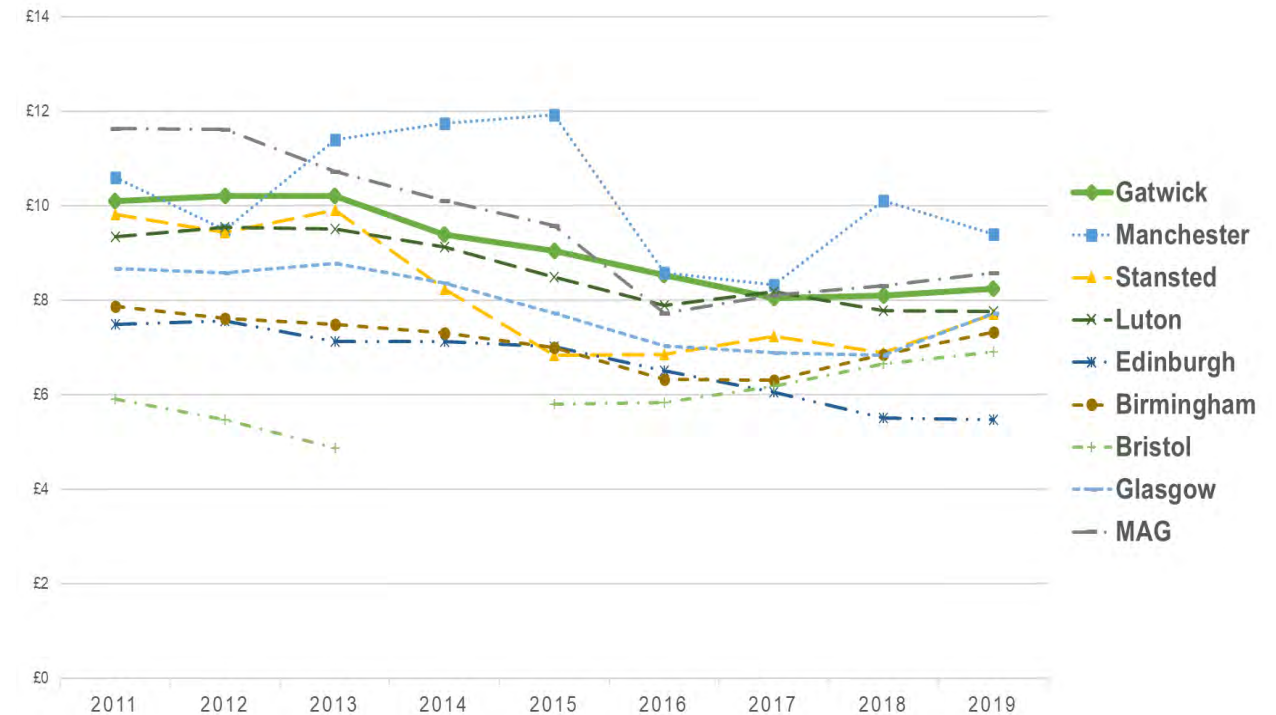
Protecting consumers (2)

Figure 3.1 Aviation revenue per passenger 2011 – 2019 (2019 prices)



Source: PA Consulting report

Figure 3.4 Adjusted opex per passenger 2011 - 2019 (2019 prices)



Source: PA Consulting report

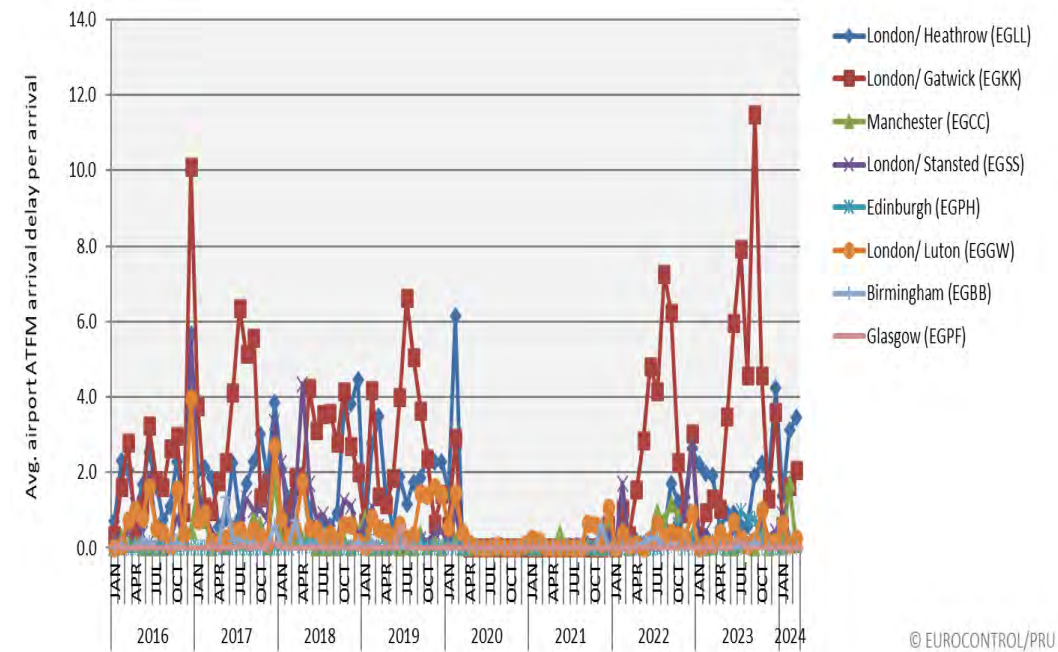
Protecting consumers (3)

Table 3.1: Gatwick accessibility ratings

Period	Q	Score
2015/16		Good
2016/17		Good
2017/18		Needs Improvement
2018/19		Good
2019/20		Good
COVID		
2022/23	Q1	Poor
	Q2	Needs Improvement
	Q3	Very Good
	Q4	Very Good
2023/24		Needs Improvement

Source: CAA Access to Air Reports. See: [Access to Air Campaign | Civil Aviation Authority \(caa.co.uk\)](https://www.caa.co.uk/access-to-air)

Figure 3.10 Average airport ATFM arrival delay per arrival



Source: Eurocontrol/PRU

Other major airports

Other major airports (>5 m pax p.a.)

The ACRs require major airports to consult on published tariffs and capital expenditure plans.

But this is not where the action is – major airlines tend to sign bilateral contracts with airports at a discount to the published tariffs.



Questions, answers and discussion