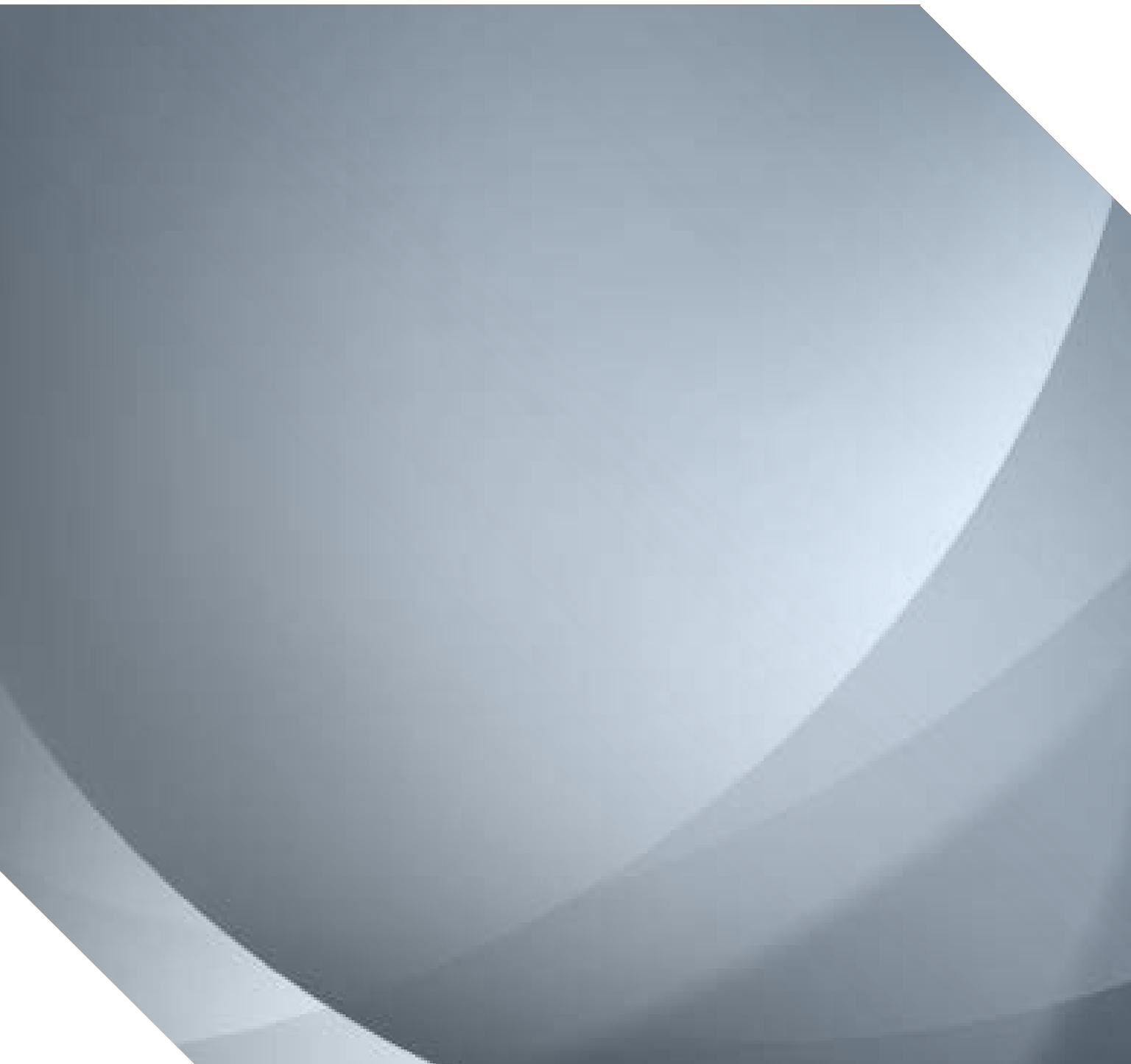


CAA submission to the Airports Commission: Sifting criteria for additional airport capacity

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SECTION 1**Introduction**

- 1.1 As the UK's specialist aviation regulator, the CAA welcomes the current debate about the case for developing additional aviation capacity to meet the needs of current and future aviation consumers, and whether this can be delivered in a way that addresses the environmental effects of aviation.
- 1.2 Government has an important part to play in shaping the future of UK aviation. Given the timescales involved in delivering aviation infrastructure and in securing returns to investors, policy stability will be crucial to generating any investment that is deemed necessary.
- 1.3 The CAA therefore welcomes the establishment of the Airports Commission and intends to contribute fully to the Commission's work.
- 1.4 The CAA is committed to focusing on the needs of consumers as the end users of aviation. It seeks to promote choice and value amongst passengers and shippers by encouraging the development of choice and competition that meet the needs of passengers, shippers and the many businesses in the UK that rely on aviation.
- 1.5 The CAA recognises that aviation must fulfil its responsibilities towards the environment and the wider public by working to meet the serious sustainability challenges it faces with regard to climate change and local impacts.
- 1.6 The CAA considers policy should be oriented to the needs of users. Such an approach reflects the reality that aviation primarily creates value for the economy by moving people and goods and also avoids capture by producer lobbyists.
- 1.7 While the CAA considers that in many cases the consumer interest represents a close proxy for the economic value generated by aviation, the CAA recognises that the considerations of the Airports Commission, and those of the Government, may be broader than the CAA's and may wish to incorporate broader public interest considerations, such as the contribution of the aviation sector to direct and indirect employment in the UK.

- 1.8 Further detail on the CAA's contribution to the development of Government aviation policy, including coverage of issues not addressed in the current consultation, are available from the CAA's website at: www.caa.co.uk/sustainableaviationframework.

SECTION 2

Criteria for additional airport capacity

- 2.1 The UK is fortunate in having a well-developed aviation sector that delivers high levels of connectivity and choice for the consumer. A large part of this benefit has been generated by a conscious policy of liberalising markets that has been sustained across successive Governments, backed by a consensus view that market participants are best able to direct change and produce innovative outcomes that would not have been forecast or delivered through state planning.
- 2.2 This context naturally places constraints on Government intervention. Further limitations arise as a consequence of international law, private ownership of assets and the present constraints on public finances.
- 2.3 To some extent, the success of this approach to UK economic policy means that the ability to improve on the existing utilisation of capacity is limited. However, whilst it is difficult to recommend particular forms of intervention or reforms to market processes, we would make a number of observations:
1. Outcomes should be set in a way that is targeted at the root cause of the market failure that the intervention is intended to address;
 2. The range of policy levers available to policy makers may also influence the way outcomes are specified;
 3. Less prescriptive approaches such as market-based policy measures will by their nature be more flexible and resilient to change as well as creating incentives for innovation. However, market-based approaches will not always be appropriate. Where this is the case, policy makers will need to satisfy themselves that they have control of policy levers to ensure delivery of a prescriptive solution.

2.4 History suggests that any decisions on aviation capacity have the potential to be politically divisive, underlining the need for both a consensual, objective framework for guiding decisions and, perhaps more importantly, mechanisms for ensuring cross-party support.

2.5 To contribute to this end, the CAA is recommending four key decision criteria, that the Commission should have regard to when considering options and potential solutions:

- 1. Demand-focused:** to ensure that any capacity solution is consistent with trends in demand and geared to deliver connectivity, choice and value for consumers.

A focus on consumer demand should not be taken as support for a return to 'predict and provide'. Indeed, if the Commission shares our clear view that financeability and sustainability are key criteria, then it will ensure that this is not the case.

'White elephant' projects such as Mirabel airport in Montreal demonstrate the perils of developing capacity that does not deliver what consumers, and the airlines that serve them, want.

- 2. Financeable:** to ensure that any solution can be funded on the basis of airport charges at a level consistent with ensuring value for consumers;

Unlike the road and rail networks, investment in aviation infrastructure is largely delivered and financed by the private sector, and, absent any proposals for different funding models, we expect this to apply to any additional capacity proposed as a result of the work of the Airports Commission. Indeed, European State Aid legislation imposes strict conditions on Government investment in airport infrastructure.

Accordingly, any investment in new capacity would need to be able to attract private finance with a credible path for recouping this investment. Given that any airport's ability to charge passengers is limited by the extent of airport competition, particularly for transfer passengers, or by regulation in the absence of effective competition, this means that airport capacity proposals predicated on financing through very high passenger charges are unlikely to be financially viable.

3. **Safe:** to ensure that any solution is designed to further improve the safety of the UK aviation system and is consistent with effective airspace management;

The UK aviation industry has one of the best safety records in the world and the CAA is committed to further enhancing safety performance. However, demand growth will increase pressure on the UK's enviable safety record, in particular as airspace management becomes increasingly complex.

It is therefore important that any proposed additional capacity is consistent with the objectives of the Single European Sky (SES) airspace modernisation programme, which is supported by the UK's Future Airspace Strategy (FAS).

4. **Sustainable:** to ensure that any growth in capacity is consistent with environmental objectives, including balancing the needs of consumers with those of local communities.

Environmental concerns have been one of the major reasons why it has been so hard for so long to deliver additional airport infrastructure in the UK. It is therefore imperative that any proposals for additional capacity have a clear plan for addressing the local and global environmental impacts associated with the proposal.

- 2.6 Though the CAA recognises that these criteria may not be exhaustive and there may be other considerations that the Airports Commission, or Government, feels are valid, they are considerations that are central to the debate and where the CAA is well placed to offer its view. Going forward, the CAA intends to shape much of its advice around these key criteria.