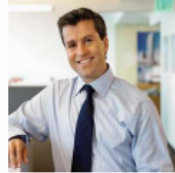


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CARDIFF INTERNATIONAL AIRPORT



STANSTED QUINQUENNIAL REVIEW

CARDIFF AIRPORT RESPONSE
MAY 2008

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CARDIFF INTERNATIONAL AIRPORT LTD.

INTRODUCTION

1.1 As part of its quinquennial price control review of Stansted Airport, the UK Civil Aviation authority (CAA) has referred to the Competition Commission a number of questions for investigation and report.

1.2 The questions are:

- A) What should be the maximum level of airport charges for the five years beginning on 1st April 2009
- B) Whether the airport has acted against the public interest
- C) If so, whether the effects will require remedy by the modification or imposition of conditions

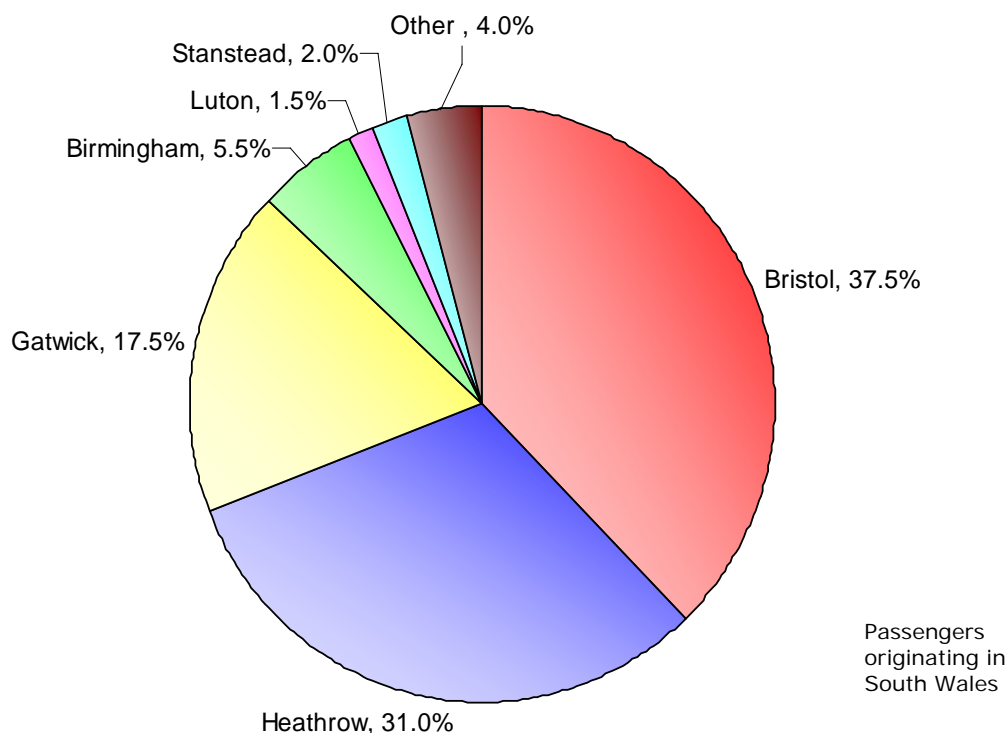
1.3 Cardiff International Airport Ltd (CIAL) is wholly owned by TBI plc, which also owns London Luton Airport Operations Ltd (LLAOL) an airport adjacent to and in competition with Stansted.

1.4 This response is on behalf of CIAL only and LLAOL have provided a separate response

THE RESPONSE

1.5 Airport charges for the five years beginning on 1st April 2009

The impact of Stansted Airport on CIAL should not be underestimated. Whilst the airports are geographically remote the critical mass of Stansted has a direct impact on CIAL's market. This can be seen in the table below, where the figures illustrate the airport of choice for passengers originating in South Wales.



The key reason given by users from South Wales for choosing an airport such as Stansted was "ticket price", and such users had the highest price sensitivity (+16%) of all South Wales air transport consumers. (source KTP Survey 2007).

This demonstrates that Stansted's influence on Cardiff's market is due to a widely believed perception of cheapness of price, including taxes and charges. This can only be assisted by Stansted pricing below cost and below the price cap.

It is widely acknowledged that the Q4 regulatory period has seen a shortfall of over £100 million in revenues for Stansted Airport. This is based upon information contained in the CAA's January 2008 Review (para 2.52 and 2.54). It is clear that Stansted has been able to commit to prices which generate sustained financial underperformance, by virtue of its Group ownership in BAA and its ability to generate shareholder return elsewhere. Moreover, this has given Stansted the ability to price below the cap in order to generate passenger demand rather than financial return. This has, therefore, artificially stimulated the market and distorted the competitive position between airports throughout the UK. This is particularly relevant where competing airports are required to generate an appropriate level of shareholder return and do not have the luxury of an ownership structure which implies cross subsidy, even if such subsidy is implicit.

Failure to create a realistic price position at Stansted will ensure the continuation of such artificial advantage and will further exacerbate unrealistic ticket disparities. This will ensure that Stansted continues to exert a reach into markets outside of the South East. This is clearly contrary to the expectation in the Air Transport White Paper that regional airports should serve more of their own markets and that this would have advantages for sustainability with less use of long distance surface access.

To that end the Q5 price review must ensure that realistic expectations on price and return are set and that a price floor or a set of clearly understood controls on incentivisation must be introduced for this period.

CIAL makes the following comments on the price cap options identified by the CAA.

A) Rely on Competition

This can only be possible if all players in the arena enjoy similar ownership advantages, otherwise free and fair competition can be distorted by BAA's deliberate financial underperformance at Stansted. We therefore believe this approach to be naïve without further controls or a change in ownership.

B) Historic Costs

This essentially freezes market conditions and ensures that further investments will be either recovered on non commercial terms or that investment is cross subsidised. Again this can only be viewed as a distortion enabled by Stansted's ownership within BAA. We wish to see a realistic approach to investment with the market at Stansted paying for necessary investment under normal expectations on payback within the industry.

C) Protect the commercial interests of airlines

We remain concerned that the recent review has been unduly representative of the self interest of a group of airlines operating at Stansted as the equivalent of the consumer or public interest. These airlines have enjoyed a distortion in the market in their favour which has stimulated demand artificially. The decision to cut capacity in winter 2007/8 in response to a price increase demonstrates the highly marginal nature of some activity at Stansted. However, airlines embedded at Stansted and enjoying a distortion in their favour will be unwilling to seek new opportunities at other locations, arguing that the price of entry, particularly at regional airports is too high. The converse argument is that unless a realistic, commercial pricing structure is created for Stansted then the comparison with the true market conditions will appear distorted in this fashion.

1.6 Conduct against the Public Interest

We maintain that the pricing policy at Stansted is possible only because of a deliberate subsidisation within BAA. That this has stimulated demand at Stansted might necessarily be viewed as meeting the public interest. It can be argued that this has reduced choice as demand has been concentrated to the detriment of regional and other airports who do not enjoy the benefits Stansted's ownership permits.

Moreover, by artificially depressing pricing for the majority of the Q4 period it has driven market expectations down and this has reduced returns across the industry. This has a direct and significant bearing on investment decisions. The long term ability of the industry to generate sufficient return on investment is critical to meeting the broad expectations of the Air Transport White Paper.

1.7 Remedies for Such Actions

It is understood that wider review of airport ownership is taking place which may offer the best remedy to cross subsidisation and distortion of the market. In the interim it must be assumed that the Quinquennial review offers the most appropriate opportunity for remedy at the present time.

CIAL seeks that the CAA continue to exercise the view that the public interest must be looked at more widely than the narrow interest of airlines at Stansted.

CIAL seeks the assurance that the impact of Stansted on regional airport markets is acknowledged and monitored and the distortions which are driving that impact are dealt with.

That the CAA continues to monitor Stansted's pricing actions closely and continues to collect necessary data.

That the CAA continues to challenge BAA over the appropriate separation of Stansted's financing from the rest of BAA and the temptation of subsidy. That BAA's be required to act commercially in respect of Stansted particularly in response to return on investment.