

STANSTED QUINQUENNIAL REVIEW

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 (CC) a number of questions for investigation and report.

1.2 This paper provides a response from London Luton Airport Operations Limited (LLAOL) to those questions.

1.3 LLAOL is the company operating London Luton Airport (LLA) under a 30 year concession from (ultimately) Luton Borough Council (LBC), the freeholder of the site. This concession started in 1998. Since then, LLAOL has developed a number of new facilities using its own funds, and has contractual obligations to maintain all facilities to agreed standards.

1.4 LLAOL is wholly owned by TBI plc, which in turn is owned by Abertis Airports (90%) and Aena (10%) of Spain. The comments made in this paper by LLAOL are in line with the general views and policies of its parent companies, although no formal Board approval has been given.

THE RESPONSE

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

LLAOL provided a response to the January 2008 CAA Stansted price control review in February 2008. In that response, LLAOL made it clear that the financial results of STN over the first four years of the Q4 regulatory period, which, as the document acknowledges in paragraph 2.52, amount to a shortfall (on a RAB basis) of between £100m and £110m over the period, raising a concern about the risk of pricing below cost and also of cross-subsidisation of STN from other parts of the BAA group.

This concern is underlined by the historical level of pricing at STN, relative to its financial performance. In paragraph 2.54 of the January 2008 review, the CAA remarks on the historically relatively low level of charges at STN. Despite the publication of increased prices for existing customers in April 2007, LLAOL remains concerned about the fact that STN has historically been willing to commit to prices which generate sustained financial underperformance and may, particularly if and when it develops additional capacity, be tempted to do so again. That being so, LLAOL believes that the issue of its price floor is as cogent to the effective operation of a competitive airport market, to the long term benefit of consumers, as is the issue of its price ceiling.

The high degree of overlap of scheduled destinations between STN and LTN, emphasises the need to ensure that competition from STN is fair and that that airport receives no cross-subsidy in the future. It is critically important for LLAOL that the regulator remain extremely vigilant to avoid potential predatory pricing levels, suggestive of cross-subsidies, at STN.

LLAOL has no specific opinion on the precise level of price cap that might be appropriate to STN. However, we are strongly in agreement with the general views expressed by the CAA in the January 2008 Stansted price control review on the importance of LRAIC in the setting of any price cap. We are also inclined to the view that the implied output level of LRAIC accords with the lower end our own assessment of the incremental cost of providing significant additional capacity.

1.6 Conduct against the public interest since February 2002

As noted above, LLAOL's principal concern in this regard is the pricing policy adopted by STN. The maintenance of a very aggressive pricing policy has co-incided with strong traffic growth and might therefore be argued to have been in the general public interest. However, LLAOL remains concerned that STN prices have been artificially low, as demonstrated by the financial performance of the STN airport business. Given the degree of overlap for passengers and routes between STN and LTN, these low prices have had, and continue to have, an impact on LTN prices. Although LLAOL does not seek to argue that this is the only or even the determining factor in its investment decisions, the price it is able to charge in its competitive environment does have a significant bearing on return on investment calculations. To that extent, the risk exists that artificially low prices at STN may play a part in constraining the long term development of LTN, which could serve to distort the operation of the London aviation market. This, plainly, would not be in the general public interest and could be argued, long term, to outweigh the short term benefit of traffic growth at STN.

1.7 Remedies for any such actions

LLAOL looks to the CAA to safeguard it from potential future actions by Stansted Airport which are contrary to fair competition. In particular, LLAOL would hope that the CAA:

- Continues to monitor Stansted's pricing actions sufficiently closely and collecting necessary data, so that it is in a position to act quickly should LLAOL consider that it is being subject to unfair competition – in LLAOL's view, an inability of the CAA to act because of a lack of data/evidence would not be acceptable;
- Would act promptly should LLAOL consider it were the subject of unfair competition;

- Remains vigilant in monitoring the behaviour of the airport in line with the CAA's more general responsibilities under the Airports Act 1986 and other relevant legislation to prevent unfair practices.