

# 12 Views of airlines and airline representative bodies

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## **Introduction**

12.1. This chapter summarizes the views of airlines and airline representative bodies. Hearings were held with nine parties.

## **Airlines**

### **Airtours International Airways Ltd (Mytravel)**

12.2. The Commercial Director of Airtours (which subsequently changed its name to Mytravel) stated that its views were contained in the submission made by the Charter Group of airlines. Airtours had a good working relationship with Manchester Airport and knew of no course of conduct against the public interest in its activities in the past five years.

12.3. The Chairman of Airtours stated that Airtours was a major user of Manchester Airport and had some concerns about the CAA proposals. In the view of Airtours, the determination of the maximum level of airport charges should be based on a continuation of the existing single-till pricing mechanism with increases governed by an RPI-X factor. The CAA proposal to move to a dual-till mechanism was based on a flawed analysis and was unproven. There should be no increase in charges without proved improvement in service quality or addition in relevant capacity.

12.4. In general, Airtours accepted that Manchester Airport had acted in a way which supported its best commercial interests and those of its customers. Manchester had invested in both new terminal and runway capacity to keep pace with demand. The airport had allowed Airtours to establish its own, corporately-branded check-in area in T1. In addition, Airtours had been working closely with Manchester to establish a joint venture maintenance facility.

12.5. The only area where Airtours had some concern was in relation to Manchester's apparent commercial preference for new scheduled services and a possible lack of recognition of the role and contribution of non-scheduled operators. Airtours had anecdotal and uncorroborated evidence that some new scheduled services that had been encouraged to serve Manchester over the last six years had received considerable marketing support and concessions on operating charges. Airtours, as an operator whose home base was in Manchester and which put large numbers of passengers a year through the airport and contributed many millions of pounds in fees, would not wish to see its charges cross-subsidizing other operators or others receiving more favourable treatment. The system of charges and marketing support for new ventures should be fair, even-handed and transparent.

12.6. In the light of increased security concerns, Airtours was concerned at the industrial dispute over security manning issues which was current at the start of our inquiry. It would wish to see this resolved as soon as possible.

12.7. Airtours believed that Manchester had rightly invested ahead of demand; airport-related delays were less severe at Manchester than at Gatwick. This investment had been achieved in a timely and successful way by Manchester under a single-till pricing regime. It did not understand how a change to a dual-till regime would improve the situation in the future. The CAA had failed to appreciate that airlines rather than airports made decisions on routes, services, frequency and capacity investment.

12.8. Airtours submitted in the context of the CAA's proposals that it would be a very harsh regulation which penalized an airport for expanding capacity too quickly. Delays caused by insufficient runway capacity caused a far higher cost penalty to airlines than the marginal increase in airport charges which was needed to pay for new runway capacity. The situation at Manchester was in marked contrast to that at Gatwick.

12.9. Airtours submitted that the CC should give serious consideration to the implementation of an efficiency discount pricing option where an airport user delivered a high level of throughput per ATM utilized. This discount should be triggered where an operator achieved a loading per ATM that was 50 per cent greater than the average achieved at the relevant airport in the previous financial year.

12.10. In the year 2000 at Manchester, the average number of passengers per scheduled ATM was 68, whereas the equivalent for non-scheduled ATMs was 205. Airtours generally welcomed the avail-

ability of additional runway capacity as it reduced delays, congestion and operating costs. Airtours observed, however, that if all ATMs at Manchester had operated with the average load achieved by the non-scheduled carriers, then the second runway would not have been required. Airtours considered it to be fundamentally inequitable that non-scheduled airlines, as the most efficient users of airport capacity, did not get a volume discount nor any recognition of that efficiency in the CAA proposals. Indeed under the CAA pricing proposals and policy preference, non-scheduled carriers would be pushed out of congested facilities through the application of market forces.

12.11. In discussion with us Airtours stated that relationships with Manchester had recently much improved. The new Managing Director of Manchester was very open to discussion and had in mind introduction of new SLAs.

12.12. We asked Airtours about its attitude to the application by Finningley Airport to develop as a commercial airport, which had been the subject of a public inquiry. Airtours said that it had supported Finningley's application.

## **British Airways plc**

12.13. BA made a submission to us which was published on the CC web site, [www.competition-commission.org.uk](http://www.competition-commission.org.uk).

12.14. The following summary is an indication of the points made to us by BA at its oral hearing and through further written submissions. Some of the main points from BA's written submission are also summarized here. However, the written submission of BA should be referred to for a more detailed appreciation of BA's position.

### ***The economic regulation of Manchester Airport***

12.15. On the economic regulation of Manchester, BA submitted that it was important that revenues be used at Manchester alone and not to develop the expanding MAG. Manchester was not a capacity-constrained airport and did not operate in a competitive environment. Whilst ownership by a local authority had an associated element of public accountability within MAG, no objective evidence existed to indicate that the ownership structure had influenced, or would influence, Manchester to price below the cap and not maximize its profits. Manchester had substantial market power and currently faced minimal competition.

12.16. BA told us that Manchester was its most important airport in the UK regions. BA carried over 3 million passengers a year in and out of Manchester Airport, had over 65,000 ATMs a year, and employed nearly 1,000 staff at the airport. It paid Manchester roughly £25 million a year and had 22 aircraft, 19 of which were CitiExpress, based at the airport. The majority of the routes flown out of Manchester Airport were competing head to head with other operators. Running the business was currently not easy and the financial position was tough. The no-frills carriers were having a big impact on BA as on all scheduled airlines and as a result BA has recently carried out a major review of all the costs that it was able to influence. It was not able, however, to control airport charges. Every passenger lost represented a significantly higher revenue loss to the airlines than to the airport. Opportunities for the reductions of all costs were fundamental to airlines as these enabled cost savings to be made which were passed on to passengers in the form of lower fares.

12.17. BA commented on the fact that Manchester, in comparing its business between the 1997 and 2002 reviews, had remarked that it wished to reverse the decline in destinations flown and restore market share. BA said that Manchester had contended that the decline was compounded by a continuing focus on the part of BA and its partners on developing the Heathrow and Gatwick hubs rather than increasing regional services. BA stated that, on the contrary, its prime focus over the last five years had been on developing regional services. Since 1997, BA had launched eight new regional routes at Manchester (Warsaw, Berlin, Oslo, Gothenburg, Lyon, Nice, Zürich and Venice) and had increased frequency on core existing regional services (Aberdeen, Edinburgh, Glasgow, Frankfurt, Geneva, Milan, Paris, Amsterdam, Düsseldorf and Hanover). At the same time, frequency at Heathrow and Gatwick over the last five years had remained unchanged, while capacity had been reduced by nearly 20 per cent. This was in line with BA's focus on point-to-point traffic and reduced reliance on transfer traffic.

12.18. Further evidence of regional development had been the investment by BA in T3 at Manchester, the inclusion of its Oneworld partners American and Finnair in the terminal, and its codeshare agreement with Aer Lingus at Manchester. All these moves had been designed to strengthen the portfolio of 26 regional routes operated out of Manchester. Finally, BA had recently announced that it would be bringing all its regional subsidiary airlines together as one business under the name of British Airways CitiExpress. This new subsidiary had already become the largest regional carrier in Europe measured in terms of passenger volume. The airline would be headquartered in Manchester and would initially base a fleet of 19 aircraft at Manchester Airport.

12.19. The points made in paragraphs 12.15 to 12.18 were, BA said, conclusive evidence that it had invested significant resource over the last five years in developing its regional activities at Manchester while at the same time reducing its capacity at Heathrow and Gatwick. In such a highly-competitive air transport market, monopoly suppliers should not be permitted to constrain further airline growth and development.

### ***The single-till as against the dual-till approach***

12.20. On the question of the single-till as against the dual-till approach, BA submitted that the single till would be appropriate for Manchester. The reasonable interests of users would not be served under the dual till. If the dual till were implemented, Manchester would be likely to invest in higher-yielding commercial projects rather than aeronautical projects. Airlines would have to pay higher charges than under a continuing single till with the effect that prices to passengers would have to rise. The single till was the best approach to getting Manchester Airport working efficiently and economically. Over the past decade, Manchester had made considerable investment in capacity, by building T3 and R2. Therefore sufficient incentives already existed under a single till to incentivize the provision of infrastructure by the airport. It was difficult to see how the CAA's RRCB approach would protect users from the substantial market power of Manchester.

12.21. The single till was simpler than the dual till. It encompassed all monopoly activities at an airport. It was consistent with international ICAO guidelines and provided a sharing of the commercial benefits and costs between airport, airlines and passengers. The cost allocation issues of the dual till were complicated. Under a dual till, there was a danger that an airport would earn excess profits and that these funds would not be ploughed back for reinvestment or for reductions in charges to users. At Manchester, airport charges were high enough; they were a very significant element of overall costs in the context of short-haul operations.

12.22. If the dual till were to be implemented, then according to the figures calculated by the CAA in its recommendations to the CC, BA alone would pay over £52 million more in regulated airport charges in the period up to 2013 than it would under a single till. BA would have to pass the increase on to passengers, and would find itself in a very difficult position since Liverpool Airport was growing and the no-frills carriers were competing vigorously from Liverpool. BA did not agree with the CAA that MA would not necessarily price up to the cap. The current single till had not stopped fairly aggressive competition from airlines at other airports; easyJet's growth at Liverpool had probably come about because charges at Manchester were too high in the first place.

12.23. BA told us that the commercial activities of an airport would not exist unless airlines were operating at the airport. The more throughput an airport achieved from airlines, the more it could generate additional income from commercial activity. Business passengers were less interested in shopping than leisure passengers; but even leisure passengers attached more importance to the operational aspects of the airport than to shops. As far as airlines were concerned, whilst recognizing the contribution of commercial revenue to meeting the costs of the airport, it was crucial that commercial revenue generation did not adversely affect the operational effectiveness of the airport and in particular the most efficient movement of passengers in the terminal. Passenger delays were extremely costly if these prevented aircraft taking off on time.

### ***Quality***

12.24. With regard to service quality, BA proposed that the permission to levy charges or the licence could be used to incentivize short-term service quality if it were to include service quality output stan-

dards, and the rebates and compensation that would flow automatically to users if such standards were not met. There was a precedent for this in the Remote Stand Rebate at Heathrow which was incorporated in the airport's Conditions of Use document. BA also suggested that in the medium term the price cap would be an appropriate vehicle for the incentivization of terminal capacity provision. The bases of these metrics were already in place, in the form of the capacity planning standards and guidelines used by Manchester to demonstrate runway and terminal capacity. These were not yet formally published by Manchester but BA believed that the standards should be published and the airport's level of compliance with these standards should be audited at agreed regular intervals. Possible remedial mechanisms could include reopening of the price cap, use of annual price adjustments, or representations to the CAA under section 41 of the Airports Act. In addition, a complaint under the CA98 to the OFT would be possible. In the longer term, BA said that it was essential to ensure that infrastructure was developed in a timely fashion. The Airports Act made this a statutory duty. BA proposed that in future, major projects should be remunerated only on a 'pay for what you get' basis, with non-delivery being penalized through linking the adjustment of the price cap to actual infrastructure delivery. BA believed that failure to deliver on a capital expenditure plan would be a breach of the regulatory settlement, and should be penalized by adjustments to the price cap in the following quinquennium.

12.25. BA said that Manchester was in the process of reopening negotiations on service quality, which it welcomed.

### ***The S factor***

12.26. On the S factor, BA believed that the CAA's proposal to drop the S factor should be accepted. The current arrangements had allowed airports to enjoy an artificially low level of business risk, at the expense of increasing risk to customers, through the ability to pass costs directly on to users without the incentive to resource the cost drivers efficiently in the first place.

### ***Peak pricing and discounts***

12.27. As to peak pricing and discounts, BA said that it would not welcome any extension to Manchester's discount schemes which were discriminatory, which were not transparent, and which were not open to all. In order for it to be possible for users to challenge potentially discriminatory discount schemes, the airport should be obliged to publish details of all discounts, including the terms on which such discounts were given. Also the price caps should be based on the full revenues, not taking account of any discounts, so that airlines paying the full price did not subsidize those operating under discount schemes. In particular, BA was opposed to the off-peak discount which had been introduced in April 2002; there was no evidence that peak pricing had stimulated growth at any airport. BA said that yield considerations meant that there were few, if any, instances where an off-peak discount would in practice lead to a peak-hour flight being rescheduled to an off-peak period.

### ***Volume term***

12.28. As to a volume term, BA submitted that some type of correction mechanism should be applied so that charges were aligned to the actual passenger throughput rather than to forecasts. If passenger growth were higher than expected, the airport should be obliged to spend the additional revenue on projects that would increase capacity, relieve congestion and maintain service quality. The volume term would be a fall-back solution in the absence of BA's preferred solution of financial mechanisms, such as a delay term in the price cap, the imposition of service standards with compensation arrangements, and improvements in capital expenditure consultation.

### ***Bilateral contracts and unregulated charges***

12.29. As to top-up bilateral contracts for particular service levels, BA thought that these should be considered. As to unregulated charges, BA commented on MA's proposal to remove from airport charges the charges for the 'triple A' security system covering accounting and authorization, and the labour costs involved in HBS. BA said that these services were currently covered at Manchester by the

payment of the regulated passenger security charge; but at Heathrow and Gatwick, these charges were unregulated. BA believed that, if MA were to be permitted to transfer these costs out of regulated charges, such a transfer must be reflected in a decrease in the regulated passenger security charge and users needed to be confident that they were receiving the optimal service at the most cost-effective price.

### ***Cost of capital***

12.30. As to the cost of capital, BA submitted that this should be set at a challenging level. The range proposed by the CAA was in excess of the true cost of capital to the airport. An appropriate assumption for the RFR would be 2.75 per cent and for the ERP would be 3.5 per cent. A level of debt premium should be used which reflected low risk. As to beta, this range should be lower than at the previous review. Generally, Manchester should be encouraged to seek efficiencies through an improved funding structure.

### ***Public interest issues***

12.31. As to public interest issues, BA had major concerns about timeliness of information disclosure on capital expenditure and specified charges for utilities. With regard to non-regulated charges, there was still a need for clear and transparent information on cost elements and cost allocation, particularly on utilities. With regard to capital expenditure and business planning, timeliness and quality of consultation and information disclosure was not satisfactory.

12.32. BA submitted views to us on the quality of service at Manchester Airport. These views are mentioned in paragraphs 12.24 and 12.25 and summarized in Chapter 5.

12.33. With regard to the Conditions of Use document, BA submitted that this was a one-sided arrangement between Manchester and its customers which did not place any obligations on Manchester. BA said that the Conditions of Use document effectively excluded any liability on the part of Manchester to deliver airport services to any given quality standards.

## **bmi british midland**

### ***The economic regulation of Manchester Airport***

12.34. On the economic regulation of Manchester, bmi referred to the fact that Manchester had bought East Midlands Airport during 2001 and submitted that Manchester had consequently enhanced its monopoly situation. Manchester Airport still had excess capacity which it was seeking to maximize. In bmi's view, there was a danger that Manchester, as it sought expansion through low-frills carriers, would price-discriminate and harm established carriers. Strong regulation was needed to prevent this.

### ***The single-till approach as against the dual-till approach***

12.35. On the single-till approach as against the dual-till approach, bmi submitted that the CAA proposals for the dual-till approach should be rejected. The single till represented a business partnership between airlines and airports with trade-offs on both sides. The aeronautical and non-aeronautical aspects of an airport could not be reasonably disengaged. Airports had funded the development of the airport to date on the basis of the single till. The facilities which currently existed far exceeded those required by airlines. If the current facilities had been subject to a dual-till regime, airlines would not have agreed to fund commercial terminal developments, and the airlines would have strongly objected to the imposition of retail areas in terminal buildings, especially where they adversely affected airline operations and passengers. It was solely because of the single till that airlines had accepted the trade-off of congestion and inconvenience as against cost. If retail areas were now removed from existing terminals, substantial additional terminal capacity would be created. The CAA's preferred RRCB approach for Manchester was a significantly more expensive option than the single till. A reduction in airport charges was more likely to attract growth.

12.36. The single till had enabled Manchester to make reasonable returns during the last quinquennium, despite the loss of intra-EC duty-free sales. Although Manchester had generally not priced up to the cap during the current quinquennium, and had followed a policy of reducing runway fees, it had added an equivalent increase to non-regulated charges. In effect, it had priced to the cap less the value of the transfer of fees to non-regulated charges. As the transfer had been applied to check-in desk and baggage hall fees, there had been no resultant savings for airlines. As to investment incentives, the CAA had not provided supporting evidence to show that the single till had failed at Manchester, or elsewhere. As to allegations of cross-subsidization, the problem was that Manchester had failed to provide business plans for scrutiny. The CAA, as regulator of airports, should not recommend a pricing framework which further enhanced the profitability of the monopoly provider, Manchester, to the detriment of its users.

### ***Quality***

12.37. As to the Q factor, bmi submitted that it was reasonable for airlines to expect delivery of the capital programme, and the provision of agreed facilities and services. It was also reasonable that financial penalties should apply for delays or non-compliance with agreed standards. In bmi's view, the process of developing acceptable SLAs should be formalized through the price cap. bmi said that the management of baggage facilities had suffered through a lack of directional management by Manchester during the last year.

12.38. bmi proposed that SLAs should be implemented in the following areas: airbridge availability; stand availability; runway and taxiway availability; security search queue times; out-of-gauge availability and queue times; passenger travelators/escalators/lifts; baggage systems availability; HBS availability; heat, light and power levels; and baggage reconciliation equipment. bmi proposed detailed service standards which should be applied to each of these areas. It said that a review was required to progress an appropriate generic scheme with Manchester. Financial penalties were essential to provide the appropriate focus on operational performance.

### ***The S factor***

12.39. On the S factor, bmi welcomed the CAA proposal to terminate the security cost pass-through. Under the current arrangements, there was little incentive for an airport to ensure that security costs were minimized. There was a danger that airports would overcharge for security requirements and therefore costs of security upgrades should only become chargeable to the airlines when fully implemented and operational. bmi stated that the current mechanism provided little incentive to the airport either to minimize costs or ensure effective contracting, as 95 per cent of costs could be recharged to users, subject to retrospective CAA review and consultation. bmi said that it would accept a supplementary charge if there were a quantum leap in current security directives, shared by the airport passing through 75 per cent of costs to the users while paying 25 per cent, subject to full transparency and appropriate scrutiny.

### ***Peak pricing and discounts***

12.40. On peak pricing and discounts, bmi submitted that users did not generally support these. Peak pricing had been found historically to have little effect on traffic patterns, as it was demand which primarily influenced airline operations. As to discounts, these should be non-discriminatory, although support for new routes and capacity enhancements was welcomed.

### ***Public interest issues***

12.41. On public interest issues, bmi submitted that consultation had not been satisfactorily resolved despite being raised at the last quinquennial review. The main problem lay with the capital expenditure programme. On unregulated airport charges, Manchester had pursued a policy during the current quinquennium of transferring costs from regulated to non-regulated airport charges, which had reduced the level of runway fees, but made check-in and baggage hall charges comparatively expensive. The level of non-regulated charges should be reviewed for reasonableness. bmi added that on non-passenger flights, it considered that positioning and maintenance flights should form part of regulated charges, as had

previously been the case, and be charged runway and navigation fees at a level that was no higher than those applicable to passenger flights. As to cargo flights, they should not be subsidized by passenger operations, but they could be subject to some incentivization to encourage growth, provided this did not affect passenger operations.

12.42. bmi submitted detailed proposals for consultation on capital expenditure.

### **The Charter Group of airlines**

12.43. The Charter Group of airlines consists of Air 2000, Airtours International, Britannia Airways, JMC Airlines and Monarch Airlines. The Group made a joint submission. It wished to highlight its concern that the interests of its sector of the air transport industry and of its passengers were not given due consideration in the CAA's proposals. The Group emphasized the importance of Manchester Airport in the charter market. Although charter airlines used other airports, the expectations of the marketplace and the small capacity of other airports in the North limited their capacity to take business from Manchester. Manchester therefore had market power in relation to the charter airlines.

12.44. The Group said that it was approaching the issues from the standpoint of practical experience gained through many years of operating in a very competitive industry. The Group believed that the CAA's proposals did not further the reasonable interests of users of airports. In the Group's view, its historical experience of the CAA's apparent inability to engage regulatory problems mid-term, and its intention increasingly to use a laissez-faire approach to regulation, gave rise to concern over the way that users' interests might be protected from a monopoly supplier. Despite virtually the whole of the airline industry remaining in favour of retention of the single till, the CAA in its proposals to the CC had continued to promote the dual-till approach.

12.45. The Group referred the CC to points made about the economic regulation of Manchester in its response to the CAA's preliminary proposals of December 2001. In its view, airport charges at Manchester were already high in absolute and relative terms and Manchester had blatantly transferred regulated income into a non-regulated area. The Group considered that the CAA ought to have provided a more robust rationale for its proposed regulation at Manchester and to have proposed price caps which were more in line with the reality of airport profitability.

### ***The single-till as against the dual-till approach***

12.46. The dual-till approach would simply raise the airlines' costs and these would have to be passed on to passengers. The split of assets would raise practical difficulties. If charges were to go up unduly, airlines might have to cease operations as their margins were low. The investment benefits of the dual-till approach were questionable. There was no evidence that efficiency would be improved. The Group believed that there should be an efficiency discount pricing option for airlines whose passenger load factors were greater than average.

### ***Quality***

12.47. On the Q factor, the Group argued that existing SLAs did not have any 'teeth'. There was no mechanism to allow a refund if the customer received poor service from the service provider. The Group felt that a mechanism should be put in place that would ensure the definition of proper, acceptable standards and financial penalties in the event of failure to meet those standards. In the Group's view, there should be no additional payments required of airlines for provision of service above basic standards. Users wished only to receive value for money, not a gold-plated service. The Group added that for those airlines wishing to provide their customers with a higher level of service, bilateral agreements with the service provider should be used, provided that this was not to the detriment of the wider community. Opting out to a lower level of service should not be permitted.

12.48. We asked the Group for its opinion on a proposal that a mediator or ombudsman be appointed to deal with disagreements between airlines and Manchester on SLAs. The Group said that in principle it would support the idea of having a mediator.

## ***The S factor***

12.49. The Group supported the CAA proposals to drop the S factor. It said that it believed that there should be no automatic cost pass-throughs. It felt that security should ideally be the Government's responsibility.

## ***Discounts***

12.50. As to discounts, the Group stated that Manchester had encouraged new scheduled services with marketing support. It contended that such support should have been non-discriminatory and transparent.

## ***Public interest issues***

12.51. As to public interest issues, the Group said that Manchester had blatantly transferred regulated income into a non-regulated area. It added that the baggage facilities fee was considerably higher than the comparable fee at other airports. Staff car parking was also very expensive.

12.52. The Group was concerned that there was no contractual requirement for Manchester to deliver appropriate standards of service quality.

12.53. The Group also said that consultation on capex was inadequate. In the Group's view, the quality of the capex information that was provided by BAA to airlines was superior to the quality of information provided by Manchester.

## **Delta Air Lines**

12.54. Delta Air Lines did not support the CAA proposal to move to a dual till. It submitted that such a move would increase its costs at a time when it was subject to severe financial pressures. The revenues generated from both aeronautical and commercial activities occurred because of the airline activity at Manchester.

12.55. Service quality issues were considered of key importance and should be included in the airport's licence. The regulator should protect airlines which might lose business as a result of poor-quality service from the airport. Delta Airlines was aware that the Manchester AOC had offered to work with both the CAA and Manchester in order to set standards for quality of service delivery.

12.56. Security costs should be a responsibility of the state and there should be no automatic cost pass-throughs.

12.57. Delta was concerned at the way in which certain unregulated charges had been increasing, for example for check-in counters and baggage handling.

## **easyJet Airline Company Limited**

12.58. We discussed with easyJet at a hearing the growth of low-cost airlines. easyJet said that it and Ryanair had been instrumental in bringing low-cost air travel to Europe. In effect, the airline industry could now be considered as segmented into: full-service carriers; charter carriers; and low-cost carriers. easyJet now felt that it had the opportunity to make the transition from a UK-based airline to a pan-European low-cost airline. That would involve developing a multi-hub operation. easyJet's base was currently at Luton Airport and it had hubs at Geneva, Amsterdam and Liverpool Airport; with the acquisition of Deutsche BA, easyJet would hope to develop a hub in Germany.

12.59. The low costs of easyJet came from simplicity; it had no business class and no frills. It aimed to get high utilization out of both aeroplanes and airports. Efficiencies in operation (such as increasing the number of daily rotations achieved by its planes) were more important in cost saving than absence of frills such as in-flight meals. In easyJet's view, the traditional airport charging structure was not necessarily appropriate for a low-cost carrier which needed to incentivize high utilization and effective use of airport facilities.

12.60. easyJet's approach to developing routes was to fly alongside traditional carriers, using main airports. Ryanair, on the other hand, tended to use much smaller airports, where it could negotiate lower charges. Airport charges were roughly 10 per cent of the cost base under the traditional model; whilst it might well be possible to negotiate lower charges with smaller airports, easyJet always kept in mind the airports that passengers most wanted to use. It also had an objective of getting fares down to about half the average fare in the market before it made an entrance. As the South-East was slot-constrained, easyJet's growth would have to come largely from airports elsewhere in the UK. That said, easyJet took slots at Gatwick when it could. It was careful to evaluate likely profits of routes, for example it judged that profits would not be made on a Gatwick–Liverpool route and therefore did not offer this. In easyJet's view, it had grown the market by encouraging people to fly who would not otherwise have done so.

12.61. easyJet aimed to fill 80 per cent of its seats. Its pricing structure was flexible in order to encourage travel at unsocial hours and seasons. Prices rose if tickets were bought nearer to the date of the flight. easyJet's approach to airport charges was that it did not need complicated infrastructure such as baggage-handling systems, because it did not run any connecting flights. It aimed to keep an aeroplane on the ground for no more than 20 minutes and it did not want jetties. It believed that it should not have to pay for facilities which it did not want to use itself.

12.62. We asked easyJet about competition between it and the charter airlines. easyJet said that charter holidays were a total product and that the charter airlines' business could not be seen in isolation. The charter airlines tended to use large aircraft which had an inherent economic advantage. Their business was very seasonal and their flights tended to be at fixed intervals. As a result, charter customers tended not to be the type of customers who would want to use the low-cost carriers as an alternative to the scheduled airlines.

12.63. easyJet had considered in the past whether to have a base at Manchester Airport, but had not pursued this option in the light of costs and the fact that transfer facilities were not needed. Also, Manchester did not appear to be able to offer the high utilization programme that easyJet needed. The relative complexity and size of Manchester Airport made it difficult to achieve fast turnaround of aircraft which was needed to achieve the required number of rotations. We asked easyJet if Manchester Airport were in any way comparable to Gatwick; easyJet replied that Gatwick's position in the south-east market was very important and that was why easyJet accepted the level of charging and operation factors at Gatwick.

12.64. We asked easyJet for its views on the CAA proposals. easyJet said its main concern was that the regulator should be aware of the airlines' need to stimulate growth and increase volume. In general, it urged transparency in all charges levied on airlines; this applied particularly to increases in security costs. easyJet was generally working towards service standards with the airports where it was based; it was interested in developing alternative structures of airport charges, for example renting a gate. easyJet added that it did not see why it should be expected to pay for certain facilities provided by airports, such as airbridges and seat reservation IT programmes at check-in desks, which it did not want. easyJet had taken the view that there were costs involved in allocating seating, and it had decided therefore not to allocate seating before passengers boarded the aircraft. As a result, passengers were incentivized to arrive in good time in order to obtain boarding numbers to get on to the aircraft, and therefore they did have time to spend shopping at the airport. It followed that passengers for the low-cost carriers did contribute to the airport's commercial income. We asked easyJet whether higher airport charges were in general passed on to passengers. easyJet said that if there were a rise in costs, the additional cost was not simply passed on in the published fare. However, the techniques of 'yield management' (in which different passengers paid different prices) would be used to ensure that the costs were passed through to the body of passengers overall.

12.65. We asked easyJet if it would be desirable to regulate in some way for quality standards. easyJet said it did not feel that this was the business of the regulator. Users should be able to negotiate with the airport.

## **KLM uk**

12.66. KLM was in favour of maintaining the single-till approach to setting the price cap. It submitted that the MMC in 1997 had concluded that the opportunity for airports to earn profits on commercial operations was due to the airlines, and therefore it was reasonable to use the single-till approach to ensure that airlines obtained some of the benefits. Furthermore, the single till mirrored the situation in competitive markets, where airports offered below-cost aeronautical charges in order to increase traffic and the resulting commercial revenues.

12.67. The CAA's approach was highly academic; in reality, it had produced no new arguments which had not been considered in the past and failed to explain what had been wrong with the approach in the past. Investment at Manchester Airport had not been inadequate; nor had Manchester Airport's capacity been constrained. KLM could not see the point of the dual-till approach.

12.68. Furthermore, the dual till would be expensive to administer and there would be problems over cost allocation which would result in disputes between Manchester and users and probably require intervention by the regulator to resolve. There was no value to be added from the proposed change.

12.69. However, if the dual-till approach were to be adopted, KLM submitted that surface access should not be included in the dual till.

12.70. Commenting on the principle of direct contracting between Manchester Airport and users, KLM said that there was merit in this but that users paying the full charges should not subsidize users who were in a contract and transparency should be provided in this respect. In reality such contracts might not work as they could be difficult to apply on a non-discriminatory and non-anti-competitive basis. KLM said that Manchester Airport had offered various concessions to airlines, but some of them were discriminatory, particularly the now-discontinued Millennium Discount for new entrants on to existing routes.

12.71. As to the S factor, KLM believed that it should be retained, but set at 75 per cent. Transparency on security costs was desirable on an ongoing basis and not just for the year of introduction. TRANSEC (the air security arm of the DfT) should play a more active role in agreeing the cost of compliance with security directives. In fact, KLM's preferred option would be for these costs to be the responsibility of the Government.

12.72. KLM added that Manchester ought to reconsider its treatment of discounts. It said that in the past, discounts had been made from Manchester's marketing budget and had in effect been subsidized by commercial revenues. The marketing budget had been reduced at the last MMC review; KLM stated that this had resulted in published discounts being cross-subsidized by other users. In KLM's opinion, the situation should be restored to what it had been pre-1997.

12.73. On enhanced information disclosure and consultation, KLM submitted that, although there was a better framework, Manchester did not approach the issue of consultation in the right spirit. At Manchester's high-level strategy group meeting, the KLM representative had not been welcome as that person did not hold a directorship—although the same person played an active role at equivalent meetings with BAA. Consultation meetings failed to fulfil their full potential because the right airline representative was not always encouraged to attend and also because of continuous changes in Manchester management. Generally, Manchester ought to pay more attention to improving relationships not just with key customers but with all customers.

## **Lufthansa**

12.74. Lufthansa expressed severe concerns in relation to airport charges levied at Manchester Airport since December 1996. It said that landing fees for cargo traffic were lower than landing fees for

passenger aircraft, whereas the level of service provision and the facilities provided relating to landing charges were identical for both cargo and passenger aircraft. Therefore the reduced cargo charge was discriminatory.

12.75. Generally, Lufthansa submitted that Manchester's published incentives were discriminatory and anti-competitive; Lufthansa said that it would rather see cost-effective fees all year and for all airlines. Furthermore, during the last few years, Manchester had tended to reduce or freeze regulated charges and increase non-regulated charges correspondingly; Lufthansa stated that the correct allocation of cost was thereby lost; as was transparency on cost-relatedness.

12.76. Lufthansa stated that the application of the regulatory formula for the year 2002/03 would have allowed an overall decrease in airport charges. However, Manchester decided to introduce special off-peak passenger fees, rather than to apply RPI-5 on all airport charges, notwithstanding that there was no support for off-peak pricing from the majority of the airlines. This scheme might be revenue-neutral for the airport, but it created a system of peak and off-peak charges which Lufthansa strongly opposed. Lufthansa said that from its experience it knew that the off-peak discount scheme would have little effect on demand, but the resulting peak charges were the equivalent of an increase in cost for airlines operating during peak hours, which might have discriminatory effects against certain users.

12.77. Lufthansa said that its views were the same as its Star Alliance partner SAS, which would not be responding individually.

## **Turkish Airlines Inc**

12.78. Turkish Airlines welcomed the CAA proposals on service quality. With regard to the S factor, Turkish Airlines considered that there should be no automatic cost transfer and that security costs should be the responsibility of the state.

12.79. As regards issues of concern, Turkish Airlines submitted that the proposed move from the single till to the dual till would increase its costs and could not be welcomed at a time when most carriers faced financial problems.

12.80. With regard to unregulated charges at Manchester Airport, carriers operating there were concerned by the increase in several unregulated charges as in the case of check-in counters and baggage handling.

## **Airline representative bodies**

### **Aircraft Owners and Pilots Association**

12.81. The Aircraft Owners and Pilots Association said that the removal of private and light aircraft from Manchester Airport was not in the public interest. With the addition of R2 the airport should be able to handle much more traffic than previously.

### **Air Transport Association of America Inc**

12.82. The Air Transport Association of America, Inc (ATA) told us that it was the trade association for leading US airlines. ATA members transport over 95 per cent of all passenger and cargo traffic carried by US scheduled airlines. Speaking on behalf of its carriers with operations in the UK, as well as on behalf of its carriers operating at airports around the world, it wrote to us in response to our statement of current thinking on dual-till proposals.

12.83. The ATA told us that it supported the concept that airlines and airports exist and operate symbiotically. Their collective success or failure is ultimately determined by the manner in which they together serve the transportation needs of the travelling and shipping public. For this reason, the ATA believed that business decisions made to enhance the relatively short-term returns of private investors,

while running counter to the long-term needs of the larger public interest, were short-sighted and self-defeating. It said that the commercial revenues flowed from, and were inextricably intertwined with, the aviation operations at the airports, and that as an economic and aviation policy matter, it was fair and appropriate for airlines to share in the commercial revenues.

12.84. The ATA told us that some US airports employed a dual-till system, although it warned that it was important to note that under US federal law, these airports were required to retain all revenues— aeronautical and non-aeronautical alike—for reinvestment on the airport. Based on its experience with these airports, the ATA gave several key reasons why it believed the CAA proposals should be rejected. In the ATA’s experience, a dual-till system (or ‘compensatory system’ as known in the USA):

- necessarily raised the charges airlines paid airports, with the result that these higher costs eventually were passed on to passengers in the form of higher fares;
- transferred revenue from airlines to airports;
- exacerbated the locational monopoly enjoyed by airports;
- did not lead to more efficient utilization of airports; and
- would not encourage new or greater investment in airport facilities.

12.85. The ATA said that the recent economic downturn, exacerbated by the tragic events of 11 September, had highlighted the fragile nature of the airline industry, which historically had existed on bare-bones profit margins of one-half percentage point. Implementing a dual-till system would drive up airport costs for airlines, increases they could ill afford and, depending on the macro economic situation, might not be able to recover. This would be unwise, especially if the increase in airport revenues returned nothing to the airport’s aeronautical infrastructure in terms of greater capacity or efficiency.

12.86. At the ICAO’s conference on the Economics of Airports and Air Navigation Services (ANSCConf 2000), convened to revise ICAO Document 9082/6, the ATA told us that the delegates from the signatory states had reaffirmed the principle that, in sharing the costs of airport operations, allowance should be made for ‘... all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators’. Recognizing and encouraging this partnership between airlines and airports was the best way to ensure that the public’s increasing demand for a robust, efficient civil aviation system is met at reasonable cost and in a timely fashion.

12.87. The ATA concluded by saying that in this and other issues regarding the CAA airports review, it had allowed IATA to speak for it, since all ATA member carriers serving the UK were also members of IATA. However, the ATA’s belief in the single-till principle was so strong that it chose in this instance to make its own submission as well.

## **BAR UK Limited**

12.88. BAR UK Limited (BAR UK) said that it did not support the proposal to move from a single to a dual till or RRCB. The move would serve to increase its members’ costs and came at a time when most of them were subject to severe financial pressures and many were losing money. The prices under an RRCB would be higher than under a single till. Despite noting that Manchester Airport had historically provided capacity ahead of user requirements, the CAA seemed to fear that this situation would change. It was also worth stating that the revenues generated from both aeronautical and other commercial activities occurred because of the passengers and shippers that patronized the airlines operating at Manchester.

12.89. Service quality issues were of key importance to BAR UK members and it would like to see them included in the CAA proposals. BAR UK wished to see service standards included in the airports’ licence. It was pleased to note that the CAA proposed there should be a penalty for below-standard performance at Heathrow and BAR UK would like to see a similar proposal made for Manchester. Its members had no choice but to deal with Manchester Airport as a monopoly operator. However, the passengers and shippers who used their services did have a choice. If poor service quality from the airport resulted in business being lost, it was reasonable to expect that the regulator should afford carriers some protection.

BAR UK was aware that the Manchester AOC had offered to work with both the CAA and Manchester Airport in order to identify targets and set standards for quality of service delivery.

12.90. BAR UK supported the proposal that there should be no automatic cost pass-throughs. It believed that security costs should be a responsibility of the state. It was glad to note that in the face of combined opposition from both airlines and BAA the CAA was not pursuing its proposal to move to a tariff basket and would retain the revenue yield approach for the price cap. BAR UK said that it was aware of the concern of its members operating at Manchester regarding the way in which certain unregulated charges had been increased (for example, for check-in counters and baggage handling). It supported the request of the AOC for the CC to investigate these increases as a matter of public interest.

### **British Air Transport Association**

12.91. BATA said that it considered the CAA proposals to be counter-productive in their impact, serving to further enhance the powers of a monopoly service provider. BATA did not believe that the regulator was properly discharging his statutory duty to protect the reasonable interests of users and, therefore, not discharging his duties in the public interest.

12.92. Whilst BATA supported the principle that the broad objective of a regulatory framework was to optimize the use of scarce airport resources and provide adequate financial incentives to provide additional capacity to meet increased demand, it did not accept that this objective could best be achieved by transfer to an RRCB approach with its requirements for intrusive frontier policing. BATA therefore maintained that the standard RAB model as presently used was the best available option.

12.93. BATA supported the CAA's recommendation that the GTI development should be excluded from the formula calculations. Whilst users supported the principle of enhancing surface access facilities they considered that specific airline facilities, within the infrastructure were neither operationally required nor financially justifiable at this time and the project should therefore be funded by Manchester.

12.94. Whilst BATA acknowledged that Manchester had made efforts to improve the overall levels of information dissemination and consultation, there remained a significant shortfall in quality of information available for user consideration. Users were not provided with quantitative information on the underlying business case for projects and were therefore unable to compare the costs and outputs available from different development options. BATA noted the CAA's preference to agree with Manchester on its future information disclosure and consultation policies rather than to recommend a public interest finding. However, BATA did not consider that this approach was capable of breaking the existing culture whereby the number of consultation meetings held appeared to take priority over the value of information provided at those meetings and they argued that a further public interest finding was therefore warranted. In this context BATA wished to emphasize that whilst Manchester had produced a capital index directory, this document was still lacking details of the business cases underlying each item including capital costs, timeframes and forecast outputs. Whilst it was accepted that the events of 11 September 2001 had necessitated major reappraisals of all capital projects, there had been a protracted delay in even producing an outline directory.

12.95. BATA endorsed the CAA's support for direct contracting where appropriate. BATA contended that there should be scope for win-win contracts to be agreed outside the regulatory framework provided that adequate safeguards were in place for the majority of users wishing to remain within the standard format. Any airport that was subject to economic regulation was only permitted to levy airport charges if the CAA had previously granted it permission. The present Conditions of Use document contained unreasonable disclaimers, which placed airlines at a huge disadvantage in their relationship with airports—these should be withdrawn in the public interest.

12.96. BATA noted Manchester's proposals to introduce improvements in the system of SLAs and provide a statement of the services and facilities which were covered by airport charges and was prepared to work with Manchester to progress these objectives. In particular, BATA was seeking for the SLAs to have a legally binding format and to incorporate penalties for failure to meet the agreed targets. A key element in this process was that of timescale. BATA considered that the main generic SLAs should be in place within the next 12 months and requested the CAA to monitor progress towards this target. In the event of not making adequate progress, the revised annual 'licence' proposed above would be available as a fallback to the regulator.

12.97. BATA supported the recommendation that the structure of the price cap should be revised to eliminate automatic cost pass-throughs. The possible need for the industry and the regulator to revisit the whole issue of security costs in the light of possible new Government requirements post the attacks on 11 September 2001 was accepted.

12.98. BATA broadly accepted the CAA's recommendation that the well-proven and generally accepted revenue yield approach to the price cap should be retained.

12.99. BATA accepted that revenue from non-passenger-carrying flights should continue to be excluded from the average yield calculations and that a separate price cap should be set for such flights.

12.100. BATA had been concerned for some time that the revenue yield approach provided an opportunity for airports to utilize unpublished discounts as a means of attracting new and/or additional traffic at the expense of existing carriers which had to meet the cost burden of any resultant revenue shortfalls. BATA therefore fully supported the recommendation that compliance with the price cap should be assessed as if all airlines were paying the published charges. In addition, BATA contended that all discounts should be transparent, published, non-discriminatory and available to all users of the airport.

### **Business Aircraft Users Association Ltd**

12.101. Business Aircraft Users Association Ltd (BAUA) said that it was closely involved on a regular basis with issues of access and costs with BAA airports and Manchester Airport. It also served on the CAA Finance Advisory Committee. If BAUA were to criticize charges at these airports after being involved in the work that produced them, it would seem illogical. However, for many years it had been concerned that these airports should not restrict access to their runways to only heavy airline equipment/scheduled carriers. That concern still existed.

### **International Air Transport Association**

12.102. IATA said that it was a trade association representing 275 members worldwide, some 50 of whom were using Manchester Airport. IATA supported the continued economic regulation of the designated airports. It believed the main objective should be to achieve the lowest possible prices consistent with an agreed standard of service and facilities. Such regulation was necessary to help protect the main users, the airlines, from the potential abuse from monopolistic providers of essential services. The CAA had recognized that Manchester Airport had significant local market power.

12.103. IATA did not support the CAA assumptions that the public ownership status of Manchester Airport and its public accountability lessened its objective to optimize profits or enhance shareholder value. MA's recent management reorganization further emphasized its commercial objectives. Similarly, its recent acquisition of two more regional airports had reinforced its position as the second largest airport operator in the UK.

12.104. IATA considered that the contributions from commercial revenues to defray the cost base for charges were an acknowledgement of the partnership between airports and airlines. It also recognized that this partnership achieved the optimal capacity, price and quality relationship for the passenger, who was the ultimate customer. This was contrary to the CAA view that airlines had no right to net commercial revenues.

12.105. The CAA believed that the single till did not give the best use of available resources. IATA felt this was a theoretical view that had little practical effect. Additionally, the CAA stated that commercial revenues should not be regulated. IATA would like to see recognition of the relationship between aviation and commercial revenues. The airports enjoyed the same privileged monopoly on retail and on-site commercial revenues as they did on aeronautical revenues. Within the shared-till policy there were sufficient incentives for the airports from their ability to increase profits from retail and commercial revenues, while minimizing the user charges. IATA was concerned at the potential 'commercial creep' that would be encouraged through RRCB.

12.106. There was no reason to believe that the RRCB or dual till would be any better at incentivizing the airports to make appropriate or timely investments than the single till. Indeed, the CAA proposals

recognized that the dual till actually increased the incentive for airports to invest in potentially higher-yielding commercial projects rather than in aeronautical infrastructure. Airlines and their customers faced significant price increases with no certainty or improvement in capacity, congestion, or customer service.

12.107. IATA was concerned at the CAA assumption that Manchester was unlikely to price up to the cap. Based on pricing activities during Q3, together with Manchester's stated objectives, IATA had no assurance that this would be the case. IATA supported the recommendation to remove surface access infrastructure from the aeronautical till. Taking into consideration the economic benefits of the airports, financing should be done through the normal surface transport funding mechanisms.

12.108. IATA supported enhanced information disclosure and consultation. While the Manchester consultation process had improved since the last review, there were deficiencies in the quality, particularly regarding capital expenditure. Nevertheless, IATA would like to see a more detailed capex directory. Capex obviously had a significant impact on its costs and on charges through the value of X within the regulation formula. More detail was therefore required, including the cost/benefit or business case for projects, so that airlines could evaluate the financial implications and priorities.

12.109. In some areas users had been relatively undemanding on detailed transparency, justification and cost allocation at Manchester, against the background that the current single till was beneficial to both parties. If the CAA proceeded with proposal to move towards dual till with users paying the full cost of aeronautical facilities, then the users would have much more demanding requirements for information and transparency. However, whether or not there was a move away from the single till, there was a need for a more detailed capital programme so that airlines could evaluate financial implications and priorities.

12.110. IATA supported the continued use of the revenue yield approach. The tariff basket approach would avoid the complicated yearly corrections that had sometimes led to price increases significantly different from the headline RPI-X. However, IATA was also concerned that it would require complex calculations on the weightings for each price increase against the revenue it produced before the charges could be set. Additionally, it required regular monitoring and policing. In view of these difficulties IATA preferred the continued application of average revenue yield.

12.111. IATA fully supported the proposal to eliminate automatic pass-throughs. It had consistently held the view that the current system of 95 per cent cost recovery of additional security costs through the 'S' claim was inadequate incentive for the airports to provide the most cost-effective solutions for implementing new security standards. It was wrong for the state to seek to recover costs of measures that it took to maintain security from particular sectors of the community.

12.112. IATA had major concerns regarding the Manchester Millennium and other discount schemes. It understood the underlying objective to grow the business, but IATA could only support discounts or rebates providing they were cost related, or as route start-up assistance for limited and fixed periods. Any discounts or rebates that were not cost related could be considered a distortion of competition.

12.113. IATA supported the inclusion of quality service terms covering the key operational areas. It would prefer to see quality service terms included in the price cap through the Conditions of Use. If this was not possible because the Conditions were not regarded as a legal document, then consideration should be given to including service quality within the licence.

12.114. IATA supported the possibility of direct contracting, providing there was an agreed robust price cap definition and that there is adequate regulatory oversight. The prerequisite was to first establish the agreed basic generic standards and levels. If the Conditions of Use did not have the necessary legal force to include the definition of this basic level, then consideration should be given to including them in the licence.

12.115. IATA did not support the CAA view that peak pricing could result in an improved use of airport resources, or in superior signals for where investment in new capacity was desired. Any system of peak/off-peak charging only arbitrarily redistributed costs between different users. Supposedly demand-altering schemes would only be effective if airlines had control over their demand patterns, but airlines had little opportunity to adjust to such systems in an efficient way because of the complex task of operations scheduling. Airline scheduling was dictated by the market, and constructed in response to passenger

demand. Against this background IATA was disappointed that Manchester had introduced off-peak passenger charges from 1 April 2002 even though there was no support from the majority of airlines. While the scheme might be revenue-neutral for the airport overall, it resulted in peak/off-peak discrimination, instead of permitting a reduced overall charge which would have been permitted within the regulation formula.

12.116. Landing charges for cargo aircraft were lower than for passenger aircraft. As it was not cost related, this differential could be considered discriminatory.

12.117. IATA did not agree with the CAA assumption that its recommendations would have little effect on the existing level of air fares on the Manchester routes, or that these were affected by slot availability at congested airports. Airline fares policy was complex and governed primarily by actual competitive pressure and market strategies rather than economic theory.

12.118. Approach and aerodrome control charges were provided by NATS on the basis of a contract following on from a competitive tendering process, and passed on to the airlines as part of the landing charges. At other designated UK airports these charges were paid directly by the airlines to NATS, who offered a regular consultation process on the cost base and rates. IATA was concerned at the lack of transparency of these charges at Manchester, and the inability of the airlines to benefit directly from any potential cost savings as a result of the competitive tendering process.

12.119. Consideration should be given to inclusion of a volume term within the regulation formula. The present formula, as applied to revenue yield, did not sufficiently recognize economies of scale. Such a factor could allow for the adjustment of the allowable yield in the event of traffic levels exceeding the forecasts. The factor could be made on an ex post facto basis to reduce uncertainty and complexity. This would incentivize realistic traffic forecasting as well as ensuring that capital expenditure plans were geared to appropriate levels of growth.

12.120. IATA said it recognized that Manchester had provided detailed information in support of the fuel levy that was collected via the oil companies supplying jet fuel. However, this was only an informal arrangement and IATA considered that this should be strengthened to place an obligation on Manchester to continue providing this data, and also to divulge any further revenue obtained from rentals etc levied on the suppliers. The fee for the storage and hydrant facilities was determined by MASHCO, a consortium of oil companies. IATA would like Manchester's lease agreement with MASHCO to include an obligation to divulge full cost information to justify the fee. As both of these fees were in support of essential airport activities, IATA believed they should be treated as regulated charges, and not as commercial income.

## **Manchester Airline Operators Committee**

12.121. The Manchester AOC said that it had about 40 to 42 members composed of airlines, handling agents and two catering companies. These represented some 98 per cent of the relevant airport population. It was in favour of the single till for Manchester. It believed that if there was a move to a dual till, Manchester Airport charges would be raised and these increased charges would have to be passed on to airline passengers. The AOC felt that there was no way of ascertaining if monies from Manchester were being cross-fed into East Midlands or other airports owned by Manchester.

12.122. The AOC said at an initial stage in the inquiry that there were still no meaningful SLAs in place, including for baggage handling, even though the CAA recommended these at the last review. The AOC said that it had no base line as to the standard of service its members were paying for and since the MA reorganization had had difficulty in obtaining decisions from Manchester on certain operational questions. The AOC believed there should be a set of GSSs that were airport specific. These should stipulate the services provided; should be binding, and include compensation for users if levels of performance were not met. The objective of users was to obtain the agreed level of service and not to gain from the compensation payments. Any measures and targets should be simple, measurable, identify responsible parties and contain trigger points for corrective action where standards fell below the agreed standard level. Progress on these during the inquiry is reported in Chapter 5. The AOC had been unable to obtain information from Manchester on utility prices (gas, electricity and water) and the split of the cost between the airport operators and Manchester. Although consultations had improved with the introduction of terminal-specific AOC subgroups, there was still a considerable way to go. The AOC said that

there was also no redress if it received a negative reply on a subject and felt that there should be some agreed avenue of appeal. It said that it had been asked to look at the triple AAA requirement on behalf of the airlines and was content with progress of the negotiations with Manchester. It had not been asked to take forward the HBS charges which it believed were being dealt with by the Joint Charges Group.

### **Strategic Aviation Special Interest Group**

12.123. The Strategic Aviation Special Interest Group (SASIG) of the Local Government Association said that it would not like to specify a maximum level of airport charges but would like to stress that airport charges should relate to the level of demand at the airport as it was illogical for airlines using the busiest airports to be paying lower charges and thus inflating demand.

12.124. SASIG's understanding was that the CAA proposals sought to overturn this anomaly and SASIG supported this. However, the scope of the items included in the charges was too narrow. The regulatory regime should allow for the airports to include surface access/public transport requirements in the charges, some of which were a long way from the airport. Failure to do so might result in an excessive burden on the local authorities in the area surrounding the airport.