



News Release

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CAA PUBLISHES CC AIRPORTS CHARGES REPORT

The CAA has today published the Competition Commission's (CC's) report and recommendations on charges at Heathrow and Gatwick airports for the five years from 1 April 2008. The report is available at: www.caa.co.uk

The CC is recommending an increase in the maximum level of airport charges at Heathrow of RPI+7.5 (that is 7.5 per cent a year above the increase in RPI) and a small reduction below RPI at Gatwick (0.5 per cent below the increase in RPI). These figures compare with the indicative ranges put to the CC by the CAA for review of between RPI+4 and RPI+8 at Heathrow, and between RPI-2 and RPI+2 at Gatwick.

BAA, the owner of Heathrow and Gatwick, regarded the CAA's proposals as being unacceptably low, and proposed a much larger increase. Among the proposals from other parties, British Airways argued for a reduction in charges at both airports, with a formula of RPI-1.5 at Heathrow and RPI-4.4 at Gatwick.

A main issue in the CC's inquiry has been the appropriate cost of capital. The CC's recommended level of airport charges is based on a real pre-tax rate of return of 6.2 per cent at Heathrow and 6.5 per cent at Gatwick. These figures are close to the top end of the CC's estimated range and take into account both the inherent uncertainties in any such estimates, and the importance of not allowing a rate of return that is insufficient to generate the necessary new investment. They are similar to the costs of capital indicated to the CC by the CAA; but they are lower than those put forward by BAA and higher than suggested by BA.

The CC also found that both Heathrow and Gatwick airports had acted against the public interest by failing to manage security queuing and queue times so as to avoid unacceptable delays to passengers, crew and flights. The CC is therefore recommending that the CAA extends the existing conditions imposed in 2003 relating to service standards and introduces certain new conditions in terms of both service processes and procedures.

The CAA, having considered the CC's recommendations, and after consultation with BAA, the airlines and others, will make its final determination on the maximum level of airport charges in early 2008.

CC Deputy Chairman, Christopher Clarke, Chairman of the Inquiry and also of the BAA Airports Market Inquiry said:

We recognize the importance of both Heathrow and Gatwick to the UK economy and hence the need over the next five years for BAA to undertake large capital expenditure programmes at both airports whilst also operating them efficiently and providing enhanced levels of service. We believe our recommendations to the CAA will enable BAA to implement its plans in full for the benefit of airlines and passengers and at a justifiable level of airport charges. We consider they will also enable BAA to earn an adequate return for its shareholders and other providers of finance.

We are continuing our separate market inquiry into the ownership and operation by BAA of seven airports in England and Scotland, including Heathrow and Gatwick and currently aim to reach our provisional findings in the second half of next year.

For further information on the inquiry go to: www.competition-commission.org.uk/inquiries/ref2007/heathrow/index.htm

Notes for editors

1. The CC is an independent public body, which carries out investigations into mergers, markets, and the regulated industries.
2. The CC has been carrying out a statutory review of the CAA's initial price controls as well as examining whether the airport owner has pursued any conduct during the last five years that has operated against the public interest. The CAA will now consider the CC's recommendations before announcing its firm price control proposals by November 20. Following a final round of consultation, a final decision will be announced in February/March 2008. The CC is also carrying a market inquiry into the supply of airport services by BAA.
3. The members of the inquiry group are: Christopher Clarke (Group Chairman and CC Deputy Chairman), Laura Carstensen, Dr John Collings, Professor Jonathan Haskel, Richard Holroyd, Professor Peter Moizer and Professor Sudi Sudarsanam.
4. Further information on the CC and its procedures, including its policy on the provision of information and the disclosure of evidence, can be obtained from its website at: www.competition-commission.org.uk.
5. Enquiries should be directed to Rory Taylor on 020 7271 0242 (email rory.taylor@cc.gsi.gov.uk).