

<p>REVIEW OF THE ECONOMIC REGULATION OF AIRPORTS</p>

What this paper is about

This paper summarises the Department's proposed reforms for the regulation of UK airports which are currently the subject of public consultation. The proposed reforms are wide ranging and cover a number of aspects of the way in which airports are regulated.

Points for Discussion

Whether the Liaison Group submits a collective response to the Department's consultation. Delegates are asked to consider:

- Para 18 – are the proposed duties of the CAA appropriate?
- Para 19-20 – whether the proposed introduction of a licence based regime should be supported in principle
- Para 24 & 27 – whether the principle of developing and supporting a network of consumer panels at airports should be supported. Delegates' views are sought as to how this proposal should be taken forward and whether more can be done by consultative committees to enhance the consideration of passenger issues.
- Para 24 – whether *Passenger Focus* should be given responsibility for airline and airport consumer matters.

Points for Possible Action

To agree a form of response to the Department.

Background

1. On 22nd April 2007 the then Secretary of State for Transport, Ruth Kelly, announced a review of the economic regulation of the UK airport system. The review was to be carried out by the Department supported by a panel of experts.
2. The Review would cover three key areas:
 - What should be the objectives of effective economic regulation of airports?
 - What are the weaknesses in the current systems of regulation?
 - What lessons can be learned from alternative regulatory systems?
3. The Review would “take into account the Department's commitment to the aims of the Government's better regulation strategy and the work will ensure that the need for sector-specific regulation and the administrative costs of that regulation are kept to the minimum necessary”.
4. On 18th June 2008 the Secretary of State invited passengers, businesses and environment groups to provide evidence to the Department for Transport to consider as part of the review which would look at how best to provide incentives to:
 - improve the passenger experience
 - encourage appropriate and timely investment in additional capacity to help deliver economic growth in line with wider Government policy
 - address the wider environmental impacts of aviation on airport development.
5. The Secretary of State also announced the names of the panel of experts who will join the Chair, Professor Martin Cave of Warwick University, in undertaking the review. The panel members were described as experts in their fields of economic regulation, business and consumer representation.
6. On 18th June 2008 the Secretary of State also published a document which aimed to clarify the purpose of the review including the type of information which the Department was seeking and how to respond. The Department also hosted seminars on 16th July and 10th September 2008 at which a number of interested organisations made presentations.
7. Copies of all these documents can be seen on the Department's website¹.

Review Group's Emerging Thinking

8. On 27th November 2008 the Department published a letter from the Review Group enclosing a Note of the Review Group's Emerging Thinking on the issues covered by the Review². The Panel said it favoured regulation by licence, with airports of different size and market power having different licence obligations.
9. A number of UKACCs committees noted that the Group was also thinking that one licence condition might be to require (some) airports to have consultation procedures with local authorities and the community in relation to noise and other local impacts, such as land use and congestion. It was not clear how this sat with the legislation with respect to consultative committees. It is thought the Department also noted this point and took steps to ensure the Panel was informed about the present network of consultative committees.

Report of the Independent Panel

10. The report of the independent panel was issued to the Department on 27th January, 2009 and was published on the Department's website at the same time as it launched the consultation on the reform of the framework for the economic regulation of UK airports. The recommendations of the panel were taken into account in the drawing up of the Department's proposals.

¹ <http://www.dft.gov.uk/pgr/aviation/airports/reviewregulationairports/>

² <http://www.dft.gov.uk/pgr/aviation/airports/reviewregulationairports/emergencythinking/>

Department's Proposals – Reforming the Framework for the Economic Regulation of UK Airports

11. On 9th March, 2009 the Department published for consultation its proposals to reform the framework for the economic regulation of airports. Full details of the proposals are to be found on the Department's website³. The Executive Summary is reproduced at Annex A. The proposals are subject to a 12 week consultation which concludes on 1st June 2009.
12. The package of proposals is intended to provide a flexible economic regulatory framework for the aviation sector that puts the passenger experience at the centre of the regulatory decision-making process as well as emphasising the environment, financial viability, and the principles of "Better Regulation". The proposals cover the CAA's statutory duties and powers, the introduction of airport licensing and appeal mechanisms, the potential for intra-airport terminal competition and enhanced consumer representation. It is proposed that the Civil Aviation Authority (CAA) should regulate fewer airports but be given more powers, with appropriate checks and balances, to further the interests of passengers and adapt the economic regulatory regime to reflect differences across the airports sector and changes over time.
13. It should be noted that the Department has developed its proposals to take into account the new EU Airport Charges Directive (paragraph 1.5 of Annex A refers)⁴.
14. The overarching framework for the economic regulation of airports in Scotland and Wales is a reserved matter with the Department retaining responsibility for policy development. Some regulatory functions in relation to those airports are devolved matters. For example, the Scottish Government is responsible for planning and environmental regulation of airports and airport development in Scotland and the Welsh Assembly is responsible for town and country planning and related environmental impact assessment associated with airport development in Wales. The Scottish Government also has an existing limited power to remove certain airports from economic regulation. The separate legislation that provides a framework for airport regulation in Northern Ireland currently closely follows that for other parts of the UK and is overseen by the CAA. The UK Government's proposed reforms will be taken forward in close consultation with the Devolved Administrations, with particular regard to where the proposed reforms in relation to economic regulation overlap with other devolved regulatory functions.
15. To inform the Department's wider view about the quality of the passenger experience at UK airports, and to help inform the Review, the Department commissioned two pieces of research:
 - The CAA undertook two surveys last year of passengers' experiences at UK airports.
 - The Department commissioned a set of focus groups and interviews to gain a more in-depth and qualitative view about passengers' experiences.
16. The advice from the CAA on improving the through-airport passenger experience is given in a report "*Understanding the Airport Passenger Experience*" which was published alongside the Department's consultation document. The key conclusions of that report are reproduced at Annex B. It should also be noted that a key conclusion from the CAA's report is that passenger representation both in local airport consultative committees and the consumer body for air travel could be improved to put pressure on service providers to improve key areas of the through airport experience that impact most significantly on passengers.
17. The proposed reforms are wide ranging and cover a number of aspects in relation to the way in which airports are regulated. There will no doubt be differing views across the various committees represented on the Liaison Group but there may be common views

³ <http://www.dft.gov.uk/consultations/open/ukairports/consultationdocument.pdf>

⁴ <http://www.ukaccs.info/euro.htm#charges>

in respect of the principle reforms which are set out in Annex A on which the Liaison Group may wish to submit a collective response to the Department. Delegates are therefore asked to consider the following:

- Whether the proposed duties of the CAA are appropriate
- The principal proposal of introducing a licence based system for economic regulation
- Enhancing passenger representation

Proposed Statutory Duties of the CAA

18. The Department proposes to replace the four duties of the CAA with a single primary duty of the following general kind:

“to promote the interests of existing and future consumers of passenger and freight services at UK airports, wherever appropriate by promoting effective competition”

supplemented by further duties (other factors) that the Regulator should also consider when seeking to achieve its primary objective as follows:

- i. to have regard to the effect on the environment and on local communities of activities connected with the provision of airport services;
- ii. to secure, so far as it is economical to meet them, that all reasonable demands for airport services are met efficiently;
- iii. to ensure that licence holders are able to finance the activities which are subject to the relevant licence obligations;
- iv. to take account of guidance issued by the Secretary of State, and to assist in delivery of airport infrastructure consistent with the National Policy Statement on Airports unless there are compelling reasons not to do so; and
- v. to have regard to the principles of Better Regulation and any other principles appearing to represent the best regulatory practice, and to consult with stakeholders, including airlines.

Introducing a new licence regime

19. The Department is proposing to introduce a new licence regime which allows economic regulation to be used in a targeted and flexible way. The proposed regime is based on three tiers that reflects the size and market power of the airports. Details of the three tiers are given in paragraph 1.9 of Annex A. For further clarity, Tier 3 licences cover airports with special conditions. The CAA would be granted the power to introduce licences at airports with less than 5 mppa and place them in Tier 3. Tier 3 would be used when the CAA has good cause to do so. For example, due to “material” complaints from passengers, freight users or airlines about poor performance. This would also provide a means for airports with high freight volumes relative to passengers to be subject to some form of economic regulation if the CAA felt it necessary.
20. Introducing a licence-based system will bring into line airports regulation with other more modern economic regulatory regimes in the UK such as energy, water and rail. The detailed proposals on the design of a licence system are still being developed but initial proposals have been put forward for stakeholder consideration. If legislation is passed to introduce a licence regime, there would be further consultation with affected stakeholders as to the appropriate design of individual licences at each licenced airport.

Enhancing consumer representation.

21. As part of putting the passenger at the heart of the regulation of airports, proposals have been put forward to further enhance the representation and interests of consumers. The proposals put forward are very much in line with the recommendations of the independent panel. Under the existing arrangements the Air Transport User’s Council (AUC) represents the interests of airline passengers rather than those relating to airports of the wider end-to-end journey experience. The Department has acknowledged that airport consultative committees are the only bodies where the interests of passengers are represented, but only effectively at the larger airports where committees have passenger services sub-committees. The Secretariat has recently sought information

from member committees about the current membership and terms of reference of committees' passenger services sub-committees or groups where they existed. From the responses received it appears that only Heathrow, Gatwick, Manchester, Stansted and Birmingham airports have passenger sub-committees/groups which regularly met and at Belfast and Glasgow airports where ad hoc meetings were arranged to discuss passenger issues. Another airport has arrangements for the consultative committee to sample the airport as a passenger on a regular basis.

22. To enhance consumer representation the Department, based on evidence of the independent panel and the advice of the CAA, believes that there should be an independent national consumer body which has authority and credibility with the Government, the CAA and the public to advise on air passenger issues. It is therefore proposed that the rail and bus consumer watchdog, *Passenger Focus*, be granted additional responsibilities to represent the interests of air passengers on both airport and airline issues. It is intended that *Passenger Focus* will develop a policy advisory function in respect of both airport and airline issues and will also handle complaints (where it has not been dealt with satisfactorily in the first instance). Part of this will possibly involve integrating the AUC into *Passenger Focus*. It is suggested that *Passenger Focus*' additional responsibilities will be industry funded via a levy on the licence fee reflected in higher airport charges. This would replace the current funding arrangements for the AUC. The levy would be based on an agreed business plan.
23. The Rt. Hon. Geoff Hoon M.P, Secretary of State for Transport, in a recent speech to the *Passenger Focus* conference set out his views on this element of the proposals. An extract from his speech is given at Annex C.
24. The Department is specifically seeking views on the suggested role of *Passenger Focus* in developing and supporting a network of consumer panels⁵ at leading airports and the appropriate form that those proposals should take. As this approach will have a direct impact on the way in airport consultative committees currently work in respect of looking after the passengers' interest, the views of member committees were sought on this element of the proposals. The response received to date has suggested that member committees agree that there should be a national consumer body to take on the policy advisory function on aviation related consumer matters but there was little support for the proposal to transfer the current responsibilities of the AUC to *Passenger Focus*. The proposal raises serious questions about whether air passenger interests would be best served by giving the role to a single organisation for passengers covering a range of transport modes.
25. The concerns expressed are given below:
 - *Passenger Focus*' current and previous experience has been in relation to rail passengers, although from 2010 they are to assume responsibility for consumer issues in relation to buses outside of London and scheduled express coach services across the UK. They are clearly land-transport based and probably have more than enough to cope with their enhanced function in relation to buses.
 - The proposal fails to consider the arrangements for air passenger representation in the context of future mechanisms by which the CAA would discharge a primary duty to consumers.
 - It appears that the only reason for suggesting that *Passenger Focus*' role should be further enhanced to include air transport is that there would be one consumer body to represent the interests of all types of passenger transport (except in London in relation to bus and rail, and except road and sea transport). Road transport in particular is a key enabler for air transport users given the number of passengers who travel by car to the airport. The reason for the proposal is considered to be misguided. There are fewer synergies than might be supposed between the requirements of passenger representation in the different transport sectors.

⁵ It is believed that consumer panels will be established where no Passenger Services Sub-Committee exists at airports. However this needs formal clarification by the Department.

- Air transport is so different from rail and bus that it needs a different range of knowledge and understanding, and potentially different skills of representation, including:
 - (a) a knowledge of and ability to rationalise EU and international legislation, such as the various Conventions, and the ability to represent the interests of airline consumers to the regulatory authorities, the UK and EU governmental organisations and organisations such as IATA, ABTA, etc.
 - (b) the whole airport operation as it affects passengers is an extremely complex matter. It involves a wide and varied range of activities performed by a number of companies, organisations and agencies dealing with matters outside the scope of land transport e.g. immigration and customs, port health, police and the complex agreements between airlines, handling agents and airports.
 - (c) air transport generally tends still to be more costly than transport by rail or road, embracing as it does global international travel as well as domestic travel;
 - (d) air transport includes a different constituency of passengers (predominantly international, including international travellers covered by EU passenger rights' legislation, the Warsaw and Montreal Conventions, etc);
 - (e) a knowledge and ability to address the needs and expectations of 'inbound' passengers coming to the UK for business or travel or visiting friends/relatives, particularly as their needs are different to the UK tax payer/resident ('outbound' passengers). The Department's proposal appears to focus on the needs of outbound passengers only.
 - (f) the companies that the AUC deals with are predominantly international in relation to complaints. Whilst there is a small number of relatively homogenous organisations running the bulk of rail and road passenger transport in the UK (First, Stagecoach, Arriva), the nature of the international airline industry involves an interlocking set of relationships between potentially several hundred airlines, their handling agents, airports, etc which needs specialist understanding.
 - the AUC has been underfunded, and therefore understaffed, which makes it less effective than it could be. AUC has the expertise but lacks the resources to undertake more than limited research and lobbying and the powers to enforce judgments or arbitrations against airlines. It is felt that it would be better to review and enhance the functions of the AUC and to give it an independent statutory footing.
 - The proposed funding arrangements for *Passenger Focus* to take on the extra responsibilities for air passengers are not acceptable. The proposed retention of separate funding arrangements for passenger representation of the different transport modes within a single body is impractical. The aviation industry would want full transparency and accountability of the expenditure of its money and evidence that its money was spent only on representing the air passenger.
 - *Passenger Focus* would not be able to champion the interests of the air passenger when giving advice to Government and other agencies about public transport funding and priorities e.g. renewal of rail franchises, Network Rail's funding. The needs of air passengers would be "balanced" with those needs of commuters. Past experience has demonstrated that the needs of commuters take priority over the needs of air passengers.
 - The proposal gives rise to issues in relation to London which includes one whole UKACCs airport (London City) and part of another (Heathrow). The end-to-end journey experience for air passengers for the UK's largest airport would not therefore be covered by *Passenger Focus*' remit.
26. In addition to the concerns expressed by some member committees, there is a growing body of opinion among various industry organisations that *Passenger Focus* may not be

the appropriate way forward. The Gatwick Committee has met representatives from the Department, the CAA and Gatwick Airport Limited and is coming to the conclusion that more consideration needs to be given to this element of the proposals particularly as there has not been a full review purely focusing on passenger representation (the proposal has only emerged as an issue to be looked at in the three recent reviews – the Department's economic regulation proposals, the strategic review of the CAA (the Pilling review) and the CAA's internal review of consumer policy). The Gatwick Committee believes that alternatives must be considered and is working with others at Gatwick to develop an alternative proposal for submission to the Secretary of State for consideration. Further details about this piece of work will be given at the meeting.

27. As regards the proposal to set up consumer panels at airports where no passenger sub-committee/group exists, concerns have been raised by some member committees about how this would work in practice as the setting up of a panel by the national consumer body would be outside the structure of the consultative committee. The proposed work of consumer panels would duplicate one of the current functions of consultative committees. Although many committees do not currently have a specific sub-committee/group looking at passenger issues, committees do consider the interests of passengers at the local level and make representations to the local airport if issues arise that need addressing. Many consultative committees also provide another avenue for passengers to raise a complaint when the airport management has not satisfactorily resolved problems/issues affecting their experience at the airport. Delegates are therefore asked to consider how they can enhance the consideration of passenger issues by their committee.

Conclusion

28. It is suggested that overall the Government's proposals to modernise airport regulation should be supported in principle as they will create a transparent and effective regulatory regime consistent with the aims of the new EU Airport Charges Directive. Introducing a licence-based system will bring into line airports regulation with other more modern economic regulatory regimes in the UK such as energy, water and rail. The proposed system will also help to improve service standards for passengers but it must be recognised that regulation alone will not be the total solution to improving the passenger experience, particularly at the busiest airports, and all parties/service providers will need to work together to deliver an improved passenger experience.
29. There are matters highlighted in this paper that the Liaison Group may wish to consider and to make its views known to the Department.

Paula Street
Liaison Group Secretariat
May 2009

Reforming the framework for the economic regulation of UK airports – Executive Summary

- 1.1. This consultation seeks views on the UK Government's proposals to update and change the framework for the economic regulation of the UK airports sector.⁶ The proposals are intended to provide a flexible economic regulatory framework for the sector that puts the passenger experience at the centre of regulatory decision-making and processes as well as emphasising the environment, financeability, and the principles of Better Regulation. We propose that the Civil Aviation Authority (CAA) should regulate fewer airports but be given more powers, with appropriate checks and balances, to further the interests of passengers and adapt the economic regulatory regime to reflect differences across the airports sector and changes over time.
- 1.2. We will consult later in the year on proposals to take forward key environmental commitments made when Government announced support in principle for the construction of a third runway at Heathrow airport. These will include proposals on a new "green slot" principle and mechanisms to ensure that additional flights at Heathrow can only be allowed when noise and air quality limits at Heathrow are complied with. This subsequent consultation will also set out how the Government intends to implement the recommendations from Sir Joseph Pilling's strategic review of the CAA.

Context to reforming the economic regulation of airports

- 1.3. Under the Civil Aviation Act 1982 and subsequent Legislation, the CAA regulates in four areas: safety, air space, consumer protection and economic regulation of airports and NATS. In 2008, the Government commissioned two separate, but complementary reviews of the CAA's role:
 - A strategic review of the CAA's overall scope, structure and organisation undertaken by Sir Joseph Pilling. This review reported in June 2008.
 - An in-depth review of the economic regulation of airports undertaken by the Department for Transport (DfT), recognising that this aspect of the regulatory regime was set up over 20 years ago and much had changed since it was established.
- 1.4. It is the conclusions of the review of economic regulation that are set out in this consultation document. However these need to be considered in the context of the former. As the Review's independent Expert Panel has pointed out, economic regulation cannot be considered in isolation, and the governance arrangements of the CAA can be expected to play an important role in the operation of the regime in practice. The Government has already accepted Sir Joseph Pilling's recommendations that this legislative framework needs to be brought up to date. Of particular relevance here is his conclusion that the CAA's general statutory remit does not adequately reflect its responsibility for safeguarding the public interest. The Government is developing proposals for future legislation that will, amongst other things, give the CAA a clear focus on actively pursuing consumer-related and environmental objectives whilst at the same time maintaining the strength of its existing focus on securing a high standard of safety.
- 1.5. In addition to proposed changes to domestic legislation, airport charges at a number of UK airports are to be subject to new legislation arising from Europe by Spring 2011. An Airport Charges Directive (ACD) has been negotiated by Member States, the Commission and the European Parliament and is expected to become EU law in Spring

⁶ The overarching framework for the economic regulation of airports in Scotland and Wales is a reserved matter with DfT retaining responsibility for policy development. The separate legislation that provides a framework for airport regulation in Northern Ireland currently closely follows that for other parts of the UK and is overseen by the CAA. DfT will work closely with the Devolved Administration in developing policy for Northern Ireland.

2009. The UK, and other Member States, will then have 2 years to implement the Directive's provisions. The Directive sets a common framework regarding the principles of how airport charges should be established and the associated relationship between airports and airlines. We have developed our proposals for economic regulation taking account of the Directive. How the UK intends to implement the specific provisions will be subject to a separate consultation, expected in 2009.

Proposed reforms to the economic regulation of airports

1.6. There are three themes that run through our proposals for reforming the economic regulation of airports. These are:

- Putting the passenger experience first, which requires appropriate levels of investment but which must be balanced by the effects on the environment and associated impacts on local communities.
- Creating an efficient, flexible and effective economic regulator that is able to adapt the regulatory regime to reflect the differences across the airports sector and changes over time.
- Recognising the principles of Better Regulation and the value of having an independent economic regulator to deal with substantial market power, or dominance, but also accepting that some decisions require political judgements best taken by a democratically elected Government.

Reforming the statutory duties of the economic regulator

1.7 We propose to reform the statutory remit of the economic regulator of UK airports. Key reforms include:

- A primary duty to promote the interests of passengers;
- Further duties to have regard to the environmental impacts of airport development, to meet reasonable demands for airport services efficiently, to ensure that airports can finance their activities and to assist in the delivery of airport infrastructure consistent with the National Policy Statement.⁷

1.8. These reforms to the duties for economic regulation would put the passenger experience at the heart of the new regime. It also recognises that part of improving the passenger experience means investing in new capacity, and that investment has consequences on the environment and local communities.

Introducing a new licence regime

1.9. Licenses allow economic regulation to be used in a targeted and flexible way. Their introduction for airports would mark a significant improvement in the flexibility of the regulatory regime. The economic licensing regime can also be used as a proportionate and effective means to implement some of the provisions of the Airport Charges Directive which is due to come into force from 2011. The detailed content of each licence will be subject to consultation, following initial development by the CAA and DfT, along with key Government and other stakeholders. We propose that the licence regime should reflect the size and market power of the airports. In other words, all airports would not be subject to identical regulation. We propose 3 licence tiers:

- **Tier 1:** those with substantial market power or dominance, requiring some form of price and/or service quality control (currently Heathrow, Gatwick and Stansted airports);⁸
- **Tier 2:** those airports with more than 5 million passengers per year (currently 13 UK airports including those subject to Tier 1 licence), which under the Airport

⁷ The Government has stated its intention to produce a National Policy Statement on Airports based on the Air Transport White Paper, which satisfies the requirements of the Planning Act 2008. A draft NPS is expected to be published in draft by 2011.

⁸ In deciding whether an airport should be included in Tier 1 an assessment will need to be made about whether the airport has 'substantial market power'. The Office of Fair Trading's website includes guidance about how the concepts of market power and dominance should be assessed.

Charges Directive, will have to consult on airport charges, provide financial information of certain kinds and meet other obligations;

- **Tier 3:** other airports where the CAA considered it appropriate to introduce a licence. Assuming that no airports are initially licensed on this basis, this approach will mean that 42 airports which currently have to seek permission to levy airport charges will not require an economic licence to operate.

All other airports would be able to operate without an economic licence.

Appealing decisions

1.10. It is important that any economic regulatory regime has not just clear duties for the independent regulator but also that the system has appropriate checks and balances built into it. The key issues for appeals revolves around which parties have access to challenge the merits of the regulator's decision on whether an airport should be subject to a Tier 1 licence and which have access to challenge the merits of a licence modification. Judicial review would be available to all parties. In addition, we propose that all parties with a material interest, including the licensee, airlines, specified consumer groups and other airport operators should be able to challenge the merits of the regulator's decision on whether an airport should be subject to a Tier 1 licence via an appeal to the Competition Appeal Tribunal. At this stage it is not obvious to us which parties should have access to appeal a proposed licence modification, such as a price cap change. A wide access to the appeal process has the benefit of empowering all parties to hold the regulator to account and minimises the risk of disproportionate regulatory action, although may risk creating a regulatory framework that could become overwhelmed and slowed down by appeals and its efficiency eroded if each of the regulator's decisions with financial implications is appealed by one party or another. We therefore propose three options on the appropriate structure of the appeal mechanism relating to licence modifications, including those relating to price control and service quality, and on which we seek the views of stakeholders:

- **Option 1** – All parties with a material interest (including the licensee, airlines, specified consumer groups and other airport operators) can appeal a proposed licence modification;
- **Option 2** – Only the licensee can appeal a proposed licence modification. Other parties with a material interest (including airlines, specified consumer groups and other airport operators) would have rights to challenge certain principles on which a modification is made.⁹
- **Option 3** – Only the licensee can appeal a proposed licence modification.

Endorsing governance changes

1.11. We recognise that the statutory remit of a regulator can only go so far in determining regulatory outcomes. The governance arrangements for the CAA will also play a major role in the operation of the regime in practice. Issues associated with governance were recently considered by Sir Joseph Pilling in his Strategic Review of the CAA. The Government has endorsed its recommendations on the reform of the governance of the CAA.

Enhancing passenger representation

1.12. Consistent with giving the economic regulator a primary duty to further the interests of passengers, we propose a significant strengthening of passenger representation within the sector. We propose that:

- Consumer complaints handling and passenger representation should pass from the Air Transport Users Council to *Passenger Focus*.

⁹ As discussed in chapter 8, this might be facilitated either through the CAA publishing a statement of principles setting out the basis upon which price controls are set. Alternatively, as proposed by the Expert Panel, this could be based upon a statement of charging principles from the airport operator setting out how the price control will be translated into the detail of charges.

- CAA's Consumer Protection Group should have an enhanced role, possibly serving as a critical friend and adviser to the CAA's Economic Regulation Group as it discharges its duties.

Passenger Focus' new role and the enhanced role of CAA's Consumer Policy Group would be funded via a levy on the airport licence.

- 1.13. These proposals are consistent with passengers' views of airports as one part of a wider end-to-end journey, reflect the fact that airport and airline customers are one and the same and would give the passenger a strong voice in determining the through-airport experience.

Next steps

- 1.14. We are very keen for all interested stakeholders to respond to this consultation and welcome views on both the package of proposals as a whole as well as the specific questions raised. An Impact Assessment (IA) is published alongside this consultation. When responding to the consultation, please also comment on the analysis of costs and benefits within the IA, giving supporting evidence wherever possible. This will help us develop the most effective regulatory framework for UK airports. The consultation will run for 12 weeks from 9 March 2009 to 1 June 2009 and responses should be sent to:

David Hart

Head of International Networks Analysis and Support
 Department for Transport
 1/26 Great Minster House
 76 Marsham Street
 London
 SW1P 4DR
 Email: david.hart@dft.gsi.gov.uk

Once we have considered the responses to this consultation, the Secretary of State will engage with the Devolved Administration in Northern Ireland to determine how the economic regulation of airports should be reformed throughout the UK. This decision will be published later in 2009. Also this year the Government intends to consult on proposals which take forward key environmental commitments made when it announced support in principle for the construction of a third runway at Heathrow airport. These will include a new "green slot" principle, for the allocation of new capacity to incentivise the use at Heathrow of the most modern aircraft, with further benefits for air quality and noise and carbon dioxide emissions. They will also include the mechanisms to be put in place ensuring that additional flights at Heathrow could only be allowed when the independent Civil Aviation Authority is satisfied that noise and air quality limits at Heathrow will be fully complied with, following guidance from Transport, Environment and Energy and Climate Change Ministers. Finally, consultation at that time will also detail how the Government intends to implement the recommendations from Sir Joseph Pilling's strategic review of the CAA which will give the CAA a clear focus on actively pursuing consumer-related and environmental objectives whilst at the same time maintaining the strength of its existing focus on securing a high standard of safety.

ANNEX B

The Through Airport Passenger Experience

A CAA assessment of the passenger experience and airport operations at Heathrow, Gatwick, Stansted and Manchester airports

Conclusions

- (1) The overall conclusion from the interviews with key industry stakeholders was that the passenger experience at Heathrow, Gatwick and Stansted was generally acceptable when the relevant airport was not subject to any disruption. This was consistent with

the CAA's passenger surveys which found that passengers were generally satisfied or very satisfied with their through airport journey.

- (2) The CAA's meetings with the airport operator and airlines at Heathrow, Gatwick and Stansted revealed that interfaces between service providers could be improved to increase resilience to the passenger journey particularly when disruptions occurred to the through airport journey.
- (3) The CAA noted the initiatives already underway at UK airports to improve passenger processing and in particular technology to facilitate self-service options. These developments often require joint working between service providers and the CAA welcomes these initiatives going forward.
- (4) The CAA's research revealed customer dissatisfaction with complaint handling by airport operators and airlines. Together with the passenger representative body in air travel, the CAA will encourage industry to improve procedures for complaint handling. Passenger representation both in local airport consultative committees and the consumer body for air travel could also be improved to put pressure on service providers to improve key areas of the through airport experience that impact most significantly on passengers.
- (5) The CAA will continue to draw upon the available evidence to compare major UK airports against other UK airports and suitable overseas counterparts to identify those service areas that might warrant further analysis. In international benchmarks, customer service was an area where the UK airports fared relatively poorly to their counterparts overseas. The CAA proposes to share the findings with BAA and to request that it considers the implication and identify any appropriate remedial action. This was seen as a particular problem at the central search area at Heathrow.
- (6) The CAA found there was scope for improving key interfaces between service providers for disruption management as well as for routine operations. Developing and planning joint scenarios for times of disruption management could clarify roles and responsibilities between the airlines, airport operators, ground handlers and UK Border Agency. This could be expected to mitigate the effects of disruption on passengers, increasing the resilience of the through airport journey. Government policy could also be usefully updated to benefit passengers who are subject to delays due to night noise jet bans at Heathrow.
- (7) The CAA also identified scope for improving co-ordination at the following interfaces for routine operations, despite the obvious improvements in the passenger experience since the security issues of August 2006 and the opening of Heathrow Terminal 5:
 - i) Standards and procedures for baggage delivery;
 - ii) Improving staff rostering at central search and border control through better use of capacity forecasting information provided by the airlines;
 - iii) Standardisation of procedures affecting on time departures;
 - iv) Co-ordination between the airport operator and airlines for services provided to persons of reduced mobility.
- (8) The primary responsibility for driving forward improvements in these areas rests with the airport operator, the airlines and various other service providers involved. The CAA proposes, in the short term, to act as a catalyst to joint planning for disruption management and for improving routine interfaces. Industry is supportive of this proposal. The ability of industry to achieve improved outcomes will depend on the continued willingness of airlines, airports and other suppliers to engage. The CAA agrees that its attendance at the initial industry working groups could help to ensure that processes are put in place to make improvements for joint planning. The CAA sees its involvement as a catalyst to industry taking leadership on co-ordination matters and is not proposing any longer term involvement. The CAA proposes to focus the exercise initially at Heathrow. Lessons learnt could then be translated to Gatwick and Stansted airports. The CAA proposes to report back on progress made at Heathrow in the summer.

**EXTRACTS FROM A KEYNOTE SPEECH GIVEN BY THE RT. HON. GEOFF HOON M.P.
SECRETARY OF STATE FOR TRANSPORT AT PASSENGER FOCUS' CONFERENCE
ON 22ND APRIL**

"... Our plans to widen their remit are motivated by their very real achievements in the renewal of this country's railways.

But they also reflect this basic truth - for joined up passenger journeys we need a joined up passenger champion. And that brings me to my recent announcement concerning aviation.

I want to put consumer representation for air travellers on a statutory footing for the first time. And, to do that, I have proposed that we transfer the functions, and expertise, of the Air Transport Users Council from the Civil Aviation Authority to *Passenger Focus*.

I have also proposed that, in its role as the economic regulator for airports, the CAA should be given a primary duty towards the passenger.

I believe these changes are essential but, of course, they cannot be immediate - we are consulting up until the first of June and then we will need to put in place the necessary legislation to give them effect.

But, when change does take place, it will mean that the question "who comes first in aviation?" can be answered in one simple and unequivocal word - "passengers".

I realise that this is a new direction and a major reform. So I want to take this opportunity to publicly acknowledge the work done, and the difference made, by the Air Transport Users Council down the years - they have amassed a wealth of in-depth knowledge and hands-on experience that will be invaluable as we move forward.

As we consult on these proposals I would also like to reassure you that our intention is to strengthen the future capacity of *Passenger Focus* and not to dilute or undermine the existing capacity with these additional areas of responsibility"

In concluding, Mr. Hoon stated:

"Today's passengers rightly demand a transport system that provides choice and flexibility. They want, and deserve, services that are reliable and punctual, safe and comfortable and which offer value for money and joined up connections across different modes of travel."