



**LONDON GATWICK**

POWERED BY  

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*By email only*

cc: Paul Smith (CAA), Andrew Walker (CAA), Stewart Wingate (GAL), James Lambert (GAL)

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Dear Stuart

## **Gatwick Airport Limited response to CAA consultation on proposal to extend the current commitments**

### **Introduction**

Gatwick Airport Limited (GAL) welcomes the CAA's consultation on its proposal to extend the commitments framework to 31 March 2029.

Nearly ten years ago, a system was created to put commercial agreements between the airport and airlines at the very centre of the business, thereby delivering improved outcomes for consumers. The relationship with airlines was transformed, service performance enhanced compared to the period under RAB regulation and GAL welcomed more passengers than ever before.

The flexibility of the framework was demonstrated during the pandemic when GAL made over £830m of losses yet continued to invest and supported airline partners by not pricing to the maximum gross yield, reprofiling other charges, varying contractual terms and sharing traffic volume risk. GAL's shareholders provided an additional £370m of equity to ensure the survival of the airport. This was all done with a view to maintaining critical long-term partnerships with GAL's airline partners, despite the additional costs associated with these measures.

As recovery began, the framework was crucial to enabling the collaborative working required to increase passenger numbers while delivering significantly increased investment and high service quality – all with GAL still continuing to price competitively against other UK and comparable European airports.

Most recently, with more flights to Europe than any other UK airport, European ATC flow restrictions and anticipated strike action by some ground-handlers have presented operational challenges. The airport-airline relationships fostered by the framework are making a positive difference in finding solutions to these challenges, with GAL holding regular operations reviews with key airlines in addition to frequent multilateral engagement.

GAL's proposal is published in full on the CAA's website. In this short consultation response we highlight the key consumer benefits of the proposal, why a four year extension is in the best interests of consumers and examples of further positive developments since the proposal was submitted.



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## The consumer benefits of the proposal

GAL's proposal benefited from the input of airline customers and the community. We listened to consultees and took the unprecedented step of lowering the proposed price ceiling materially. The commitment to a price ceiling which is expected to decline, on average, in real terms stands in contrast to the approach taken at major airports in the UK and Europe. GAL is also proposing enhancements to Core Service Standards (CSS) metrics as part of the ongoing CSS review and adding significantly to the Capital Investment Programme (CIP).

More specifically, as set out in section 5 of our proposal, the key elements are:

- **Service:** Maintain excellent service delivery and propose enhanced CSS metrics.
- **Investment:** A substantially enhanced capital programme. Over the 10 year period from 2019, planned investment is £2.6 billion (including around £500m for the Northern Runway Programme) – substantially higher than the minimum investment commitment of £1.5 billion and delivered under a lower price ceiling.
- **Price:** Propose a lower price ceiling, switching from RPI to CPI with a maximum annual increase of CPI-1% for the first two years of the extension (but not to reduce below 0% nominal) and a trajectory of CPI+0% thereafter.
- **Vision:** 'To be the airport for everyone, whatever their journey' built on three core foundations – ease, efficiency and experience.

These important enhancements further support GAL and its airline customers in navigating the unprecedented impact of the pandemic and the ongoing economic and geo-political uncertainties as we seek to deliver the best outcomes for passengers over the coming years.

Under the commitments framework, GAL enters into bilateral contracts with many individual airline customers which are tailored to their requirements, including modifications to both price and service elements of the published tariff. We are highly encouraged that our proposal meets customer expectations as we have since signed new contracts with the majority of our airline customers.

## A four year extension is in the best interests of consumers

A four year extension will benefit consumers by generating a more stable, predictable environment to assist our airlines in continuing to recover from the pandemic and provide the right background to enable the effectiveness of our airline contracts.

Section 4.3 of the proposal explains why a four year extension is merited given the traffic uncertainty and, particularly, the outcome of the Northern Runway DCO application. These aspects of uncertainty must be clearly resolved ahead of another regulatory determination: a four year extension would likely provide sufficient time for a DCO decision to be made, any appeals to be heard, for the lasting impact of the COVID-19 pandemic on traffic to become clearer and for GAL to consult with its airline partners ahead of the next regulatory submissions.

Conversely, a shorter extension would present several risks which could make it more challenging for GAL and airlines to consult on service commitments and investment plans and for GAL to plan and undertake investment efficiently. In particular, a materially shorter extension would:



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- Risk creating greater regulatory uncertainty which would be costly and time consuming for all parties at a time when very substantial commercial uncertainty already exists and the focus for all parties must be on continued recovery and growth.
- Be less likely to provide certainty about the Northern Runway Programme before the next regulatory review starts and lead to ongoing uncertainty surrounding forecasts of traffic volume and mix as well as the UK macroeconomy. This increases the risks of outcomes that diverge from regulatory intentions and either disadvantage consumers or adversely affect the airport in ways that make it impossible for it to meet its service obligations and invest.
- Provide a less effective platform to consult on, prioritise and deliver a large investment programme through the coming years.
- Potentially require work to begin on the next regulatory period before the commencement of the extension and before market and airport developments have crystallised:
  - As set out in the conditions of use, GAL is required to notify the CAA and all operators at the airport at least two years prior to the end of the term of its intention regarding the continuation of commitments (i.e. by March 2027).
  - A year is needed to consult with stakeholders on a full period proposal and make amendments to reflect feedback (i.e. by March 2026). This process may require longer depending on the DCO outcome.
  - GAL requires six to nine months to develop a proposal (i.e. by June 2025 – shortly after the expiry of the existing commitments – even with a four year extension).

The four year extension proposal will allow GAL and its airline partners to focus on continued recovery and growth in the near term and await less uncertain conditions to review economic regulation towards the end of the period.

Growing economic uncertainty since the proposal was submitted further strengthens the case for a four year extension. The Bank of England has raised interest rates by 75 basis points since 31 March 2023 and stated in July that, whilst inflation has begun to fall, it remains much too high. Many City analysts therefore expect rates to continue to rise, with some forecasting a recession from Q4 2023.

## Developments since the proposal was submitted

Reflecting the competitive nature of the proposal and the response to airline feedback, GAL has made good progress in commercial negotiations with airlines and, as noted above, has now signed new contracts with the majority of customers which, in some cases, cover the full period of the proposed extension and beyond.

Moreover, since the proposal was submitted, there have continued to be positive developments for airline customers and consumers, reflecting GAL's focus on delivering benefits under the commitments framework as it competes with other airports in the London system for passengers and with airports across Europe for airline services.

- Section 5.1 of the proposal highlighted the progress of GAL's CSS review. Preliminary stakeholder meetings have since been concluded, survey design is complete and qualitative research is under way.



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- Section 5.2 of the proposal set out GAL's investment plans and highlighted that consultation on the CIP was almost complete. The Passenger Advisory Group was supportive, noting that it was pleased that major projects are in progress and adding that it had enjoyed and welcomed being consulted on the majority of these. The Airline Consultative Group re-iterated the airlines' investment priorities, all of which have been reflected in the CIP. Several key milestones have already been reached since the proposal was submitted:
  - Following the supportive responses, GAL published the 2023 CIP on 11 July 2023.
  - The DCO application for the Northern Runway Programme was submitted on 6 July 2023, with the CIP including over £500m to start the programme.
  - CAPEX has almost tripled from £71.4m in 2022/23 to £210m in 2023/24. There has been good progress across the current investment projects. In addition, the Beacons system for passengers requiring special assistance went live in June and plans to transform the passenger experience in the North Terminal have commenced. The CAA's July 2023 Airport Accessibility Report rated GAL as 'very good' for the October 2022 to March 2023 reporting period.
  - Having accelerated its commitment to be net zero by 2030, GAL is accelerating sustainability investment and partnering with stakeholders. In June, London Gatwick received the international Eco Innovation Award for environmental excellence.
  - A fully mobilised programme is in place to ensure Next Generation Security Checkpoint technology is deployed across all areas of our security operation for 1 June 2024. A trial lane currently operating in North Terminal (Lane 3) with over 2m trays processed.
  - Consumers are also benefiting from a further strengthening of collaboration with airlines to deliver innovation, including projects with IAG, easyJet and Ryanair.
- Section 5.4 of the proposal set out GAL's draft vision and this was unveiled alongside GAL's new brand identity on 27 April 2023.

## Conclusion

The commitments framework has consistently delivered benefits for consumers, with GAL continuously working with airline partners to improve the passenger journey. The flexibility of the framework was demonstrated during the pandemic and is crucial to the recovery.

This significantly improved offer is an important and positive step forward for GAL, its airline customers and consumers which would last to the end of the decade. Building on the success of the current commitments, it proposes a lower price ceiling, enhancements to CSS and a step change in investment far in excess of the minimum commitment. We are strongly encouraged by the customer response, with new long-term bilateral agreements now secured with the majority of our customers.



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We are available to answer any queries from the CAA and look forward to engaging on next steps.

Yours sincerely

Jim Butler  
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Gatwick Airport Limited