

Gatwick Airport

Response to the Department for Transport
Consultation on the European
Commission's proposed Aviation Security
Charges Directive

September 2009



Main themes of Gatwick Airport's response

Status of Gatwick Airport regarding change of ownership

1. The first point to be made in any submission to the Department for Transport (DfT) is that Gatwick is likely to be in separate ownership from BAA in the future. This has some immediate impacts:
 - This submission represents the views of Gatwick Airport's management. As such, this submission should not be seen to represent the views of BAA Ltd and has been developed separately to any submission by BAA Ltd.
 - To the extent that such views are different to those expressed by BAA previously on behalf of Gatwick Airport, this document represents Gatwick Airport's current position.
 - The DfT is asked to ensure that Gatwick Airport is added as a consultee for all future consultation processes conducted by the Department. Such documents should be addressed to Andy Flower, Managing Director, Gatwick Airport and Sarah Hunter, Finance and Strategy Director, Gatwick Airport.

UK Consultation on Aviation Security Charges Proposal

2. The DfT is consulting on a proposal from the European Commission to introduce an Aviation Security Charges Directive. Gatwick's detailed reply is contained within the form provided by the DfT and attached as the Appendix. However, we consider it useful to bring out the main themes of the response.
 - **Gatwick Airport's view is that this Directive is not required in the UK.** While Gatwick supports the aims outlined in the proposed Directive, Gatwick considers the current arrangements in the UK (even before the imposition of the Airport Charges Directive) satisfy the aims outlined by the European Commission in its proposed Directive.
 - **Competition and regulation already deliver the benefits identified by the Commission.** In the UK, the airports are typically privately owned. There is competition between airports to attract airlines and passengers. In three cases – Heathrow, Gatwick and Stansted - such competition is supplemented by regulation. This combination of private ownership, competition and regulation ensures that security costs are kept as low as possible, and that transparency is ensured where required. Indeed, Gatwick's security costs are published each year as part of the annual consultation to set Gatwick's overall airport charges. The same is true for BAA's other London airports.
 - **The proposed Directive is not consistent with the Airport Charges Directive.** With respect to other airports – all of which are non-regulated – the Airport Charges Directive will require many of the features included in the Aviation Security Charges Directive for those airports that are over 5 million passengers per annum (mppa). For the smaller airports, Gatwick considers it disproportionate to highlight one aspect of an airport's costs for individual treatment in the way proposed by the Directive. The



debate over which airports to include in the Airport Charges Directive – which Gatwick already complies – need not be re-opened in the Aviation Security Charges Directive.

- **The proposed Directive could damage competition between the UK airports.** The UK airport system, particularly BAA's ownership of 7 airports, has been the subject of sustained investigation by the competition authorities in the UK over the past 3 years. The UK government is now carrying out a wide-ranging review of economic regulation. All regulatory authorities – the Civil Aviation Authority (CAA), the Competition Commission (CC) and the DfT – are aligned behind the concept that competition should be encouraged. The possible break-up of BAA (which is currently subject to appeal by BAA) is expected by the CC and the CAA to enhance the competitive landscape in the UK. The Commission's proposed directive – by imposing a further layer of regulation – may well hinder the development of competition that is now on the horizon. In addition, Gatwick believes that there is the risk that enhanced regulation of security charges will frustrate innovation in this important area. Gatwick successfully introduced "Fast Track" security lanes. The proposed Directive could well have frustrated the delivery of this innovation.

Summary

3. Gatwick understands that there may be well be a lack of transparency over security charges at airports in the rest of the European Union. However, that need not require the introduction of unnecessary and intrusive regulation in the UK.
4. Gatwick Airport is content for this submission to be published by the DfT.

Gatwick Airport contact details

Andy Flower
Managing Director

Tel: 01293 50300
Email: andrew_flower@baa.com

Sarah Hunter
Finance and Strategy Director

Tel: 01293 503004
Email: sarah_hunter@baa.com



Appendix

Consultation Response Form for UK consultation on Aviation Security Charges Proposal

Consultation documents are available at <http://www.dft.gov.uk/consultations/open/>

PART 1 - Information about you

Name	Maureen Spence
Address	7 th Floor, Destinations Place, South Terminal, Gatwick Airport
Postcode	RH6 0NP
email	maureen_spence@baa.com
Company Name or Organisation (if applicable)	Gatwick Airport Limited
Please tick one box from the list below that best describes you /your company or organisation.	
<input type="checkbox"/>	Small to Medium Enterprise (up to 50 employees)
<input checked="" type="checkbox"/>	Large Company
<input type="checkbox"/>	Representative Organisation
<input type="checkbox"/>	Trade Union
<input type="checkbox"/>	Interest Group
<input type="checkbox"/>	Local Government
<input type="checkbox"/>	Central Government
<input type="checkbox"/>	Member of the public
<input type="checkbox"/>	Other (please describe):
If you are responding on behalf of an organisation or interest group how many members do you have and how did you obtain the views of your members:	
If you would like your response or personal details to be treated confidentially please explain why:	



Appendix

PART 2 - Your Comments

1. Do you think the Commission's proposal to regulate security charges is well targeted and proportionate to the problems identified?	YES	NO <input checked="" type="checkbox"/>
<p>Please explain your reasons and add any additional comments you wish to make:</p> <p>Gatwick's view is that this Directive is not required in the UK. While Gatwick supports the aims outlined in the Directive, Gatwick considers that the current arrangements in the UK (even before the imposition of the Airport Charges Directive) satisfy the aims outlined by the European Commission.</p> <p>In the UK, the airports are typically privately owned. There is competition between airports to attract airlines and passengers. In three cases – Heathrow, Gatwick and Stansted - such competition is supplemented by price-regulation. This combination of private ownership, competition and regulation ensures that security costs are kept as low as possible, thereby meeting one of the objectives of the Commission.</p> <p>In addition, the combination of competition and regulation means that transparency is ensured where required. Indeed, Gatwick's historic security costs are published each year as part of the annual consultation to set Gatwick's overall airport charges. The same is true for BAA's other London airports. In addition, the regulatory framework contains a mechanism to allow unexpected security costs to be identified, consulted upon and – if approved by the regulator - recovered by the airport operator.</p> <p>With respect to other airports in the UK – all of which are not price-regulated – the Airport Charges Directive will require many of the features included in the Aviation Security Charges Directive for those airports that are over 5 mppa. In the UK, the Airport Charges Directive will apply to security costs.</p> <p>For the smaller airports, GAL considers it disproportionate to highlight one aspect of an airport's costs for individual treatment in the way proposed by the Directive. The debate over which airports to include in the Airport Charges Directive – with which Gatwick already complies – need not be re-opened in the Aviation Security Charges Directive.</p> <p>We have a general concern about this particular Directive. Unlike other EU countries, the UK has a transparent and well-functioning system of regulation – where necessary – and competition – where possible. The UK is already in the process of transposing the Airport Charges Directive. Transposing a further Directive, which will not add anything to the transparency of the UK system, has the potential to disrupt the way in which the current regulatory system operates as well as frustrating the competitive dynamic between the airports.</p>		



Appendix

2. What do you see would be the main benefits/disbenefits for passengers of this proposal?

Gatwick sees no benefit in the introduction of this Directive, with some (albeit minor) extra costs. As explained in the answer to question 1 above, the UK has a very competitive airports sector. The benefits perceived by the Commission in terms of a reduction in security charges should already have been achieved in the UK via a combination of competition and regulation. We consider therefore that security costs are likely to be at a reasonably efficient level, and reflected in airport charges accordingly.

With respect to service quality, at Gatwick (and the other regulated airports), there is already a scheme in place to ensure that the Airport strives to achieve the appropriate level of service provision with respect to security queue times. This is the Service Quality Regime that has been in place for two regulatory price-control periods.

Of course, the main impact on the level of security charges has been the impact of the attempted terrorist attacks of August 2006, and the many changes in the security regime since that time. Despite the significant increase in security requirements, the CAA nevertheless imposed challenging efficiency targets on Gatwick's security costs. These efficiency targets were set following an extensive consultation with interested airlines including tri-lateral meetings between Gatwick, the airlines and the CAA.

Given that Gatwick already consults on all aspects of its airport charges, breaks down its historic security charges (which are in any event subject to extensive investigation by the CAA and the CC), we accept that the extra costs of implementing this Directive will be relatively small. Nevertheless, there will be incremental costs which will be ongoing. As explained above, we see no incremental benefits for passengers in this proposal. As such, the overall impact assessment, at least for the UK, we judge to be negative.

3. Do you think that the proposed directive is well-aligned with the provisions in the Airport Charges Directive? If not, how could it be better aligned to minimise burdens on and maximise benefits for the UK aviation sector?	YES	NO <input checked="" type="checkbox"/>
---	-----	--

Please explain your reasons and add any additional comments you wish to make:

Gatwick does not consider that the proposed Directive is in line with the provisions in the Airport Charges Directive. Careful and thoughtful discussion led to the decision that the Airport Charges Directive would apply to airports only above 5 mppa. This was a pragmatic recognition that the requirements imposed by the Directive were not proportionate for smaller airports. In contrast, the proposed Directive is targeted at a much larger number of airports. This immediately increases the burden upon those airports.



Appendix

As to the transparency and reporting requirements, these would seem to duplicate those provisions in the Airport Charges Directive, at least in the UK, since security costs are included within airport charges.

If the Security Charges Directive is to be implemented, then it should be aligned explicitly with the Airport Charges Directive. In particular, it should only be in force for airports above 5 mppa. In addition, it should be made clear that the provisions in the Security Charges Directive are applied only if such provisions are not already delivered in the Airport Charges Directive, or by the existing regulatory framework.

The proposed Directive needs to recognise that there is already a dispute resolutions procedure in the UK for any aspect of airport charges, including security costs. This is the appeals process to the CAA via section 41 of the Airports Act. In any event, the UK regulatory system is being reviewed by the UK Government. This is likely to lead to further rights of appeal for the users of the large airports.

4. Do you have any comments on the European Commission’s Impact Assessment of the proposal?	YES ✓	NO
---	-------	----

Please explain your reasons and add any additional comments you wish to make:

The main comment from Gatwick’s perspective is the proposal that this Directive will cut security charges on average by more than 10%. Gatwick can see no justification for this figure which seems rather random in its selection. The scale of this proposed reduction is of course important in the Commission’s impact assessment.

In any event, in the UK, such cost reductions would normally be achieved by a system of direct regulation – as is the case with the 3 regulated airports in the UK – or competition – which is the case for the other UK airports. In the case of the UK therefore, the benefits suggested by the Commission will already have been secured for users.

We consider also that the Commission has underplayed the administrative burden required to implement this Directive for the non-regulated airports. Many of the airports will not have dedicated resources associated with security provision. There will be issues, for example, about how such shared resources (and overheads) are therefore allocated between security and non-security costs.

In Gatwick’s case, the Airport already calculates an historic per passenger security cost – which includes operating expenditure, capital expenditure and a proportion of overheads – which is made available to the airlines as part of the regular consultation with them. To identify the relevant proportion of overheads requires the development of a sophisticated cost reporting system in order to demonstrate that such costs were properly calculated and allocated. While proportionate for an airport the size of



Appendix

Gatwick, we do not consider that such a system would be reasonable for a smaller airport. It is not therefore the case that the costs of complying with the proposed Directive would be minimal.

It should be noted that the consultation on airport charges does not currently require the airport operator to produce a break-down of its projected security costs, since the Airport does not levy a security charge. Again, if the UK regulatory authorities considered that this would be in the public interest, there are existing mechanisms to introduce such a further level of transparency.

<p>5. Airport operators – do you currently separately identify security costs from other elements of your charges to users? If not, why not? How easily could you do so? How would the proposed Directive impact on your business?</p>	<p>YES</p>	<p>NO ✓</p>
---	------------	-------------

Please explain your reasons and add any additional comments you wish to make:

As explained above, Gatwick does identify its actual security costs to the airlines on an annual historic basis. The Airport does not at this stage separately charge for such costs, with recovery of such costs being part of the overall airport charges tariffs. In addition, as part of the setting of Gatwick’s price-control, the CAA publishes BAA’s five-yearly forecast of security costs and consults upon them with the airlines. Outside of the regular price-control process, Gatwick does not produce annual forecasts of its security charges. So, in terms of its proposed charges to airlines, we do not currently identify security costs separately.

Since the Airport calculates its historic security costs and provides this figure to the airlines, we do not consider that it would be difficult to carry out this exercise on a prospective basis. However, since the Airport is not proposing to levy a security charge, then this would appear to be a nugatory exercise.

<p>6. Airlines – What do you think the effect of the proposals will be on the charges you pay at other EU airports?</p> <p>Will the proposed requirements generate any new cost burdens for you?</p>	<p>YES</p>	<p>NO</p>
---	------------	-----------



Appendix

Please explain your reasons and add any additional comments you wish to make:

Not applicable

7. Subject Matter (Article 1): Do you agree that this Directive should apply to all airports in the EU for security or other reasons?

YES

NO

If not, can you suggest an appropriate threshold for those airports that should be covered by the legislation?

Please explain your reasons and add any additional comments you wish to make:

On the basis that the Directive goes ahead, we consider that it should only apply to airports above 5 mppa. This would bring the requirements of this Directive into line with those of the Airport Charges Directive.

8. Definitions (Article 2): Do you agree with the definition of security charge? If not, please suggest changes or alternative definitions.

YES

NO

Please explain your reasons and add any additional comments you wish to make:

The Directive defines security charges as

'a levy which is specifically designed to recover all or part of the cost of security measures intended to protect civil aviation against acts of unlawful interference.'

Gatwick considers that this definition is too vague and open to differing interpretations. As such, it is unlikely to add the clarity that the Commission is seeking. However, the alternative of seeking to identify the particular costs that should be identified will also suffer from problems of differing terminologies in the member states. In any event, as the Commission recognises in the preamble to the Directive, it is not proposing to interfere in the way in which security costs are charged for in Member States.

As explained, Gatwick is clear what goes into its security costs and makes this calculation available to the airlines. However, there could legitimately be further costs included. For example, the cost of policing in the local vicinity and within the Airport is not included in the Airport's calculation of its security costs, albeit that these



Appendix

policing costs are part of the overall costs included in the Airport's tariffs.

We do not propose that there is simple solution to this problem. A solution would be to seek to identify a schedule of costs that should be included, together with an appropriate cost allocation methodology, that would then be applied across all member states. Such a breakdown could for example cover the following costs –

- Security staff (landside, airside, airfield)
- Security equipment – cost of provision, installation and maintenance
- Roadside security (incl entry posts)
- ID Centre
- Airport management charges
- Immigration control
- Police

With some dedicated work, across the Member States, it should be possible to align the differing definitions in the Union. However, experience in other sectors shows that this would be a very major piece of work. It would also seem inconsistent with the Commission's aim not to interfere in the charging methodologies of Member States.

9. Definitions (Article 2): Do you have any other comments about the definitions in the proposed Directive?	YES ✓	NO
--	-------	----

Please explain your reasons and add any additional comments you wish to make:

The other definitions in Article 2 seem relatively straightforward. With respect to Gatwick, we comment only on the definition of “airport managing body”. It should be noted that while it is clear who is the “airport managing body” - in this case, Gatwick Airport Ltd - there are other parties who are responsible for aspects of security at an airport. The airlines and the police being two such examples.

<p>10. Non-discrimination (Article 3):</p> <p>a) Do you agree with the principle of non-discrimination when applying security charges? What do you understand this to mean?</p> <p>b) Are there any circumstances when this principle might not be feasible to administer?</p>	YES ✓	NO
---	-------	----



Appendix

Please explain your reasons and add any additional comments you wish to make:

Gatwick agrees with the principle of non-discrimination.

We understand this to mean that all airlines operating from the Airport are paying the same level of charges on a per passenger basis, irrespective of the passenger's origin or destination. To the extent that some passengers cause more costs than others, this would be reflected in a differing charge (to the extent that there was in fact a charge for security). That is, there would be similar charges for an equivalent provision of services.

In the UK regulatory regimes, this is sometimes referred to as no undue discrimination. This is intended to reflect that fact that while charges may be similar, they may not be identical. Such differences may be due to, for example, a differing mix of passengers. Such a formulation also allows the introduction of charges intended to incentivise a change in behaviour – for example, to arrive at the airport with less luggage needing to be checked in.

We cannot think of many circumstances when this principle might not be feasible to administer. It is possible that it could be necessary to change (presumably to increase) the security requirements for a particular group of travellers, or a particular destination, but in a way that such extra costs could not be passed onto passengers. Another circumstance might be the emergency introduction of a new security regime in a way that did not allow charges to be changed to reflect the new regime.

11. **Consultation (Article 4):** Do you agree with the requirement for a mandatory yearly consultation on security charges between the airport management body and airport users?

YES ✓

NO

Please explain your reasons and add any additional comments you wish to make – **we are particularly interested in any costs and benefits associated with the proposal:**

Gatwick Airport operates in a competitive environment. Airline customers are also operating in an intensely competitive environment. Gatwick Airport already carries out formal annual consultations with the airlines as part of the process of setting airport charges. This consultation process includes the costs associated with security provision. As noted above, Gatwick does not currently charge separately for security provision. If the Airport chose to introduce a security charge, we would therefore carry out a yearly consultation on all airport charges.

Since the Airport already carries out an annual consultation, we consider that there would be no incremental costs or benefits associated with the consultation process itself.



Appendix

<p>12. Do you think the proposed timescale for agreeing changes to security charges would work in practice?</p> <p>If not, please suggest what would be a more realistic timetable?</p>	<p>YES</p>	<p>NO ✓</p>
<p>Please explain your reasons and add any additional comments you wish to make:</p> <p>The timing of the consultation process is always a matter of judgement. Airlines typically want a long notice period before charges alter as they will be selling tickets up to a year in advance of flight time. On the other hand, for the charges to reflect recent events and costs (such as the Retail Price Index in the UK regulated airports), such consultations would take place as close as possible to the date of change in charges. Taking these two opposing factors into account, the proposal to consult at least 4 months in advance and publish 2 months in advance seems the very minimum that should be considered. At Gatwick, in a normal year, the final notification of charges is given over 3 months before the start of the charging year.</p> <p>We consider however that there should be flexibility to alter the timetable where necessary (and following consultation about the change in timetable). For example, in the UK, the regulatory process has meant that final notification of the overall revenue cap for the regulated airports, did not allow the normal timetable to be followed for the first year of the 5 yearly control periods. In fact, final charges could only be notified in the month prior to the changes in charges taking effect.</p>		
<p>13. Transparency (Article 5): Do you believe that these information requirements are appropriate at all EU airports?</p> <p>What do you consider to be the costs and benefits?</p>	<p>YES</p>	<p>NO ✓</p>
<p>Please explain your reasons and add any additional comments you wish to make:</p> <p>Paragraph 1 of Article 5 covers the level of transparency proposed for airport operators. We have already explained that the differing charging mechanisms employed by airports in the Member States makes it difficult for the Commission to specify in detail what costs should be made transparent. This is particularly the case for the smaller airports. As such, we propose that such requirements be demanded only of airports over 5 mppa.</p> <p>With respect to Gatwick Airport, the information requirements would not be that onerous, albeit that the Commission's proposed break-down is not something that is currently forecast by the Airport on an annual basis. Rather, this break-down would feature in the five yearly setting of the Airport's price-control. An annual forecast would therefore require extra resources for the Airport.</p>		



Appendix

Paragraph 2 of Article 5 covers the level of transparency proposed for the airlines. We consider that the Commission has over-estimated the airlines level of co-operation in this regard. We have found from many years of consultation with airlines that they are very reluctant to provide information, even on a confidential basis, of the nature suggested by the Commission. Traffic and fleet forecasts have proved particularly difficult to elicit from the airlines. The reason given by the airlines, and one which we understand, is that they operate in a competitive environment. As such, this information would be, and is, commercially confidential.

With respect to the costs and benefits of this proposal, we consider that the benefits are minimal compared to the level of transparency already achieved by Gatwick Airport. There would be some level of costs associated with disaggregating Gatwick's security cost projections on an annual basis – as opposed to the five yearly disaggregation that already takes place.

There is a general point to be made here. The UK system of regulation is based on incentivising the airport operator to seek efficiencies in its costs. This incentive is delivered by way of an RPI-X form of control. Once the formula is set, then any efficiencies – or losses – are borne by the airport operator. Requiring the airport operator to publish annually its forecasts of costs will automatically lead to an asymmetric risk for the airport operator. That is, if costs are lower than forecast, airlines will call for lower charges. If costs are higher than forecasts, airlines will resist increased charges. This system will therefore tend towards a cost pass-through mechanism thereby diluting the efficiencies produced by the current system.

With respect to the costs and benefits with respect to transparency of airline information, we consider the case is clearer. We believe that there would be significant incremental benefit in requiring airlines to disclose to the airport operator a greater richness of forecast information than is currently the case. Such disclosure would be accompanied by a requirement on the airport operator to respect the confidentiality of such information. We cannot comment on the cost to the airlines of disclosure of such information, but we cannot believe that the costs would be significant since this would appear to be information that the airlines should routinely hold.

14. Transparency (Article 5): Do you think that these information requirements would affect your current commercial relationships? If so, please state how.	YES	NO ✓
---	-----	------



Appendix

Please explain your reasons and add any additional comments you wish to make:

Gatwick supports an appropriate degree of transparency between the Airport and its users. This is reflective of normal commercial relationships. However, we are cautious about the Commission intervening in these commercial discussions to direct the level of transparency. We are not aware of any of our major airlines agreeing to meet the transparency requirements proposed by the Commission. We consider that airlines at Gatwick are content with the level of consultation and transparency currently offered by the Airport. As such, we do consider that the information requirements would affect our current commercial relationships.

Another aspect of commercial behaviour that might be affected is where multi-year contracts are agreed between an airline and the airport operator. These may well take the form of discounts, or incentive mechanisms, to support airport and airline growth. A requirement to separate and charge for security would complicate such commercial negotiations.

Clearly, if the Commission proceeds to implement these particular transparency requirements, then careful consideration needs to be given to how to compel the airlines to deliver the type of information that they have to date been unwilling to provide. Since the airlines are not regulated by the CAA in the UK, it is not clear – short of requiring the regulation of the airlines – how the Commission would intend the obligations on airlines to be delivered.

<p>15. Transparency (Article 5): For airports (and associated airlines) covered by the Airport Charges Directive, would these requirements create any additional burden to that which is already covered under the existing Directive?</p>	<p>YES ✓</p>	<p>NO</p>
---	--------------	-----------

Please explain your reasons and add any additional comments you wish to make:

For the reasons set out above, we do believe that these requirements would create an additional burden on airport operators and airlines compared to that already envisaged in the Airport Charges Directive.

There is an additional issue that we wish to bring to the attention of the Commission. Many of the security directives issued by the UK government are confidential to the airport operator. Indeed, Gatwick Airport had to obtain clearance from the government to provide a list of such directives to the Competition Commission. There will be costs associated with the implementation of particular directives which, if disclosed, would breach the confidentiality of the directives. An example would be the requirement to carry out a number of random searches of passengers which would have a direct impact on rostered staff numbers. Another example would be the percentage of passengers who are required to remove their shoes as part of the security screening process. Again, without breaching confidentiality, we could not



Appendix

explain to the airlines why the number of security staff had increased. The proposed Directive should therefore allow the airport operator to derogate from the requirements of the Directive in order to comply with any confidentiality provisions of the Member State's government.

16. Impact Assessments (Article 6):

a) What are your expectations about what a Member State should do before the adoption of More Stringent aviation security Measures (MSMs)?

b) Are there any circumstances where you could foresee that undertaking an impact assessment and consulting upon it may not be appropriate or necessary?

YES NO

Please explain your reasons and add any additional comments you wish to make:

a) The UK airports and airlines are urging Transec to align the UK security regime with that of the EU baseline. One of the frequent complaints that we and airlines receive is that there are differing rules between airports. This directly impacts the passenger experience and is not conducive to the free movement of people and goods within the European Union. We would also wish to see much more transparency on the rationale for MSMs. As such, we strongly support the proposal to require an impact assessment to be carried out before the imposition of an MSM.

b) It is clear that where there are major terrorist incidents, which may be ongoing, that there may well be a need to impose a MSM without carrying out an impact assessment. In such cases, we would still support a retrospective impact assessment. Given however that such terrorist activity may be the subject of continued investigations, it may not be sensible to put a time limit on such retrospective impact assessments.

17. Impact Assessments (Article 6): Are there any operational or financial impacts associated with the requirements of this Article?

YES

NO



Appendix

Please explain your reasons and add any additional comments you wish to make, **including any data that may help to inform the impact assessment:**

As explained above, Gatwick does not consider that there are major operational or financial impacts associated with this requirement since much of what the proposed Directive would require is already part of Gatwick’s consultation process with its airlines.

<p>18. Cost-relatedness of security charges (Article 7): Do you agree that the principle of cost-relatedness should be included in the Directive?</p> <p>How feasible would this principle be to apply within the context of the UK’s system of airport operation and regulation?</p> <p>What effect do you think that a requirement for cost-relatedness would have on your charges?</p>	<p>YES</p>	<p>NO <input checked="" type="checkbox"/></p>
--	------------	---

Please explain your reasons and add any additional comments you wish to make:

It seems sensible that any security charges should be used exclusively to meet security costs. As such, we support the proposal that security charges, if levied, should be demonstrated to be cost-reflective.

For the larger airports, we believe that the introduction of this directive would be consistent with the current system of airport operation and regulation. Larger airports should already be able to identify the broad category of costs associated with security provision. Provision that charges are broadly cost reflective is also consistent with ICAO rules for airport charges.

We note that the UK regulatory system does not in fact explicitly require airport charges to be cost-related. In fact, the UK regulatory system ensures that airport charges are not cost-reflective. This is due to the imposition of the “single till” upon the Airport. This ensures that charges for use of airport infrastructure are cross-subsidised by the commercial income of the Airport. This will by definition result in airport charges that are not cost-reflective. A requirement to make one element of airport charges cost-reflective – will only therefore increase the disparity between costs and charges for the other elements of airport charges.

For the smaller airports, we do envisage significant operational issues associated with the demonstration of cost-relatedness of security charges. This is associated with the systems necessary to separately identify security costs, and associated overheads, to then derive a charge for such costs and then to alter the billing



Appendix

systems to ensure that this new charge was put onto the bills of the airlines.

One related aspect of the creation of separately identified and charged security tariffs would be clarity as to how the airlines pass such charges through. The Commission should specify that security charges – if levied - are to be passed onto passengers directly.

Given Gatwick Airport's current tariff structure, there would be a direct impact on the Airport if there was a requirement to separately identify and charge for the provision of security services. The creation of a separate security charge would have a direct one-off impact on all other charges since the Airport's revenues are regulated. If a separate charge is introduced, with an associated revenue stream, then this must impact some or all of the remaining charges.

Finally, a more general requirement on all aspects of an airport's charges to be cost-reflective should be a matter for the UK government's review of economic regulation.

19. Independent Supervisory Authority (Article 8): Do you agree that an Independent Supervisory Authority should be nominated or established to ensure the correct application of the proposed Directive?

YES

NO ✓

Do you have any comments on the ISA's proposed function and operation in practice?

YES ✓

NO

Please explain your reasons and add any additional comments you wish to make:

Gatwick Airport considers there is not a need for a (new) Independent Supervisory Authority to be established (see below). The UK system already has mechanisms to allow airlines to raise disputes with the Civil Aviation Authority. A new formal mechanism to allow disputes to be raised over security charges (rather than, say, other aspects of airport charges) risks commercial negotiations being substituted for regulatory intervention. It is clear from the recent reviews of the UK airports sector that (with the possible exception of Heathrow), the UK airport sector is moving towards a more competitive environment. As such, we do not support the introduction of a more regulatory system. The introduction of such a new regulatory system would in fact hinder the development of competition between airports in the UK.

20. Independent Supervisory Authority (Article 8): Who do you feel would be best placed to undertake the role of the ISA for the purpose of security charges in the UK?



Appendix

If there is to be an ISA, then the CAA would seem to be the obvious candidate. The recent dispute between the CAA and easyJet over what should be allowed for in terms of security costs demonstrates the CAA's expertise in this area. We would expect of course that if the CAA was being obliged to carry out extra regulatory duties, then there would be resource implications for the CAA. Given that the CAA's costs are passed through to airport operators, this would impact somewhat the level of airport charges.