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16 February 2009

Rt. Hon. Geoff Hoon MP
Secretary of State for Transport
Department for Transport
Great Minster House
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Dear Secretary of State,

Reform of UK Airports Economic Regulation

I am writing to seek your personal intervention to ensure that airline interests are properly reflected as a primary statutory duty of the CAA Regulator in the forthcoming Department for Transport (DfT) consultation of the future UK airport economic regulation system.

As you will be aware, we have consistently maintained that the current system of airport economic regulation has failed and is no longer fit for purpose. A significant element of this failure has been due to the way in which the CAA Regulator has interpreted its statutory duties. We therefore welcomed the DfT review, in concert with the Competition Commission (CC) review and interim recommendations, on this issue.

Together with the British Air Transport Association we have been providing our views and requirements on future economic regulation to your team. We are now broadly in agreement except for the proposal that the CAA's primary statutory duty should be towards the passenger.

While we fully agree the passenger interest must be taken into consideration, we firmly believe that this primary statutory duty must also reflect the interests of airlines. This is particularly important given that the new proposals remove automatic involvement of the CC, and do not include a statutory duty to ensure the efficiency of airport prices and operations. This could have a detrimental impact on both the competitiveness of airlines and on the interest of passengers. Inclusion of the interests of airlines within the primary statutory duty would provide the necessary checks and balances for efficient regulation and reduce the CAA's ability to act in an arbitrary manner.

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In this regard we note that both the Air Transport Users Council and the CC have also reiterated their view that the airlines can and do represent the interests of their passengers and also cargo shippers, who are generally unwilling or unable to engage in many aspects of complex airport regulation. Additionally, as the main customers, airlines are better placed to identify regulatory requirements or failings.

We see no reason why the UK should unilaterally abandon the well-proven global best practice of regulating airport economics through transparent consultations with airlines. Ensuring that the interests of airlines are fully considered is the most effective way of ensuring value for money and protecting against monopoly abuse by airports. Indeed, the latest version of ICAO policies on the subject requires that the interests of both passengers and users should be protected through consultations with users. Other very recent regulatory measures take this approach, including the draft EC Airport Charges Directive and the establishment of the Aviation Economic Regulatory Authority in India.

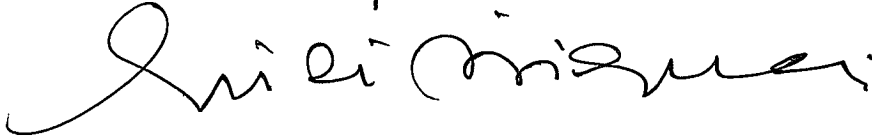
Whilst protection of the passenger interests is vital, we are not aware of any airport economic regulatory regime in any other major country that places the interests of passengers in such a unique and explicit primary position as the UK now proposes. Regulatory bodies such as the Australian Competition and Consumer Commission and the Commerce Commission in New Zealand have the interests of the consumer (passenger) in their mission statements. Their rulings have reflected this in the past, for example on the benefits to consumers versus the cost of regulation. However, there is also a clear requirement to balance the interests of all parties, notably airlines, as well as passengers.

Our understanding is that the formal DfT consultation is likely to be issued shortly. I urge you please to ensure that the views expressed in this letter are addressed within the consultation document to avoid subsequent disagreement on a fundamental point of principle.

We need to bury in the past the failed airport economic regulatory regime that has been an embarrassment not only to the UK but also the entire aviation industry. I am very keen that we should jointly ensure that the UK creates a best practice regime that is fit for purpose. So, I look forward to continued support and cooperation with you and your team to achieve this.

Sincerely,

Looking forward to meeting you



Cc:	Mr. Willie Walsh	British Airways
	Mr. Nigel Turner	British Midland
	Mr. Steve Ridgway	Virgin
	Mr. Daniel Bernstein	BATA