1. Good afternoon ladies and gentlemen. I am very pleased to have been asked to contribute to this important conference. Since I spoke at the ACCC’s conference on incentive regulation in November 1999 both the Australian authorities and the CAA in the UK have been engaged in intensive work on airport competition and regulation.

2. I have been asked to begin this session today by considering the scope for competition between airports and the circumstances in which economic regulation may be justified. I propose also to outline how the CAA’s thinking on airports regulation has developed during our current five year review of the price caps at the major UK airports, explaining in particular some new approaches we have been developing.

3. It is often said that airports have natural monopoly characteristics, but it is unclear to me that this is necessarily so. There are some economies of scope in coordination. There are also some initial economies of scale, but such scale economies are likely to give way to broadly constant returns thereafter until diseconomies kick in as they expand further. However, whatever efficiency benefits may or may not arise as a result of monopoly, the risk is that competitive pressures will be lessened and any resulting market power may lead to airport charges being higher than efficient cost levels, to increased fares to air travellers and to reduced demand for travel. In practice there will be a spectrum between those instances where there is real scope for direct competition – albeit such competition will not be perfect since all airports outputs will be differentiated to some degree – and those where there is little such scope. In considering the case for regulation it should always be remembered that competition between imperfect substitutes is the norm in many unregulated markets.

4. The degree of competition between two or more airports and the market power any one can exercise will depend on a range of factors. These include the distance separating the airports and the extent of any overlap in their catchment areas; the degree of competition from surface transport modes; the potential for an airport to attract “connecting” traffic travelling between other distinct geographical markets; the type or mix of traffic – for example business, holiday or visiting friends and relations – which they seek to attract; and, in the case of airports serving holiday markets, the existence of other airports serving the same or competing holiday destinations.

5. But there are other less immediately obvious influences which may need to be taken into account. The principal demand for airport services – from airlines – is a derived demand and airlines’ competitive strategies can have a major effect on airport competition and market power. The potential for competition between even major
airports with substantial overlap in their surface catchment areas may be limited if network externalities militate against airlines splitting their operations or even against moving them wholesale to a competing airport when a particular airport is already established as the major hub in a country or region. Also where regulated, but potentially competing, airports are congested, the scope for direct competition may in practice be limited in the short term where prices are held below market clearing levels. And the ownership of airports can have important implications for competition. This is particularly so where otherwise potentially competing airports are under common ownership.

6. An airport’s market power is influenced by a number of factors. The fact that for most airlines airport charges account for only a small proportion of overall costs, fares and freight charges has an important bearing on the assessment of market power. However, there are other influences, in particular the demand elasticity for air travel to the destination concerned, the alternative sources of supply for a given airport’s services, and the supply elasticity of other input providers such as airlines or air traffic control to the overall service to end users.

7. Against this background, the Australian and UK aviation markets provide some interesting contrasts as well as some similarities. Clearly the distances between the major airports in Australia are much greater than in the UK and the demand for air travel at each of the cities involved is much smaller than that for the London area. On the face of it the largest airports – Sydney, Melbourne, Brisbane and Perth – although not immune to substitution possibilities, appear to have a high degree of market power in their own city or regional catchment areas. In contrast, in the UK, Heathrow, Gatwick, Stansted, Luton and, on a smaller scale, London City all serve one city, London, and its surrounding regions. The first four main airports lie within 15 and 35 miles radii of the centre of London and for the majority of passengers travelling times vary between about a half to one and a half hours depending on the airport chosen and the mode or modes of travel. While each of the four airports has its own recognisable catchment area, these overlap, some to a substantial extent, although the precise degree varies depending on the particular airports and the market segments or mix of segments which they serve.

8. That said, the three largest – Heathrow, Gatwick and Stansted – are under common ownership and are operated as a system rather than in competition with each other. They account for over 90% of the densely populated South East of England airport market and 60% of the UK market overall. Heathrow with over 60 million passengers a year is the largest and the only one with two runways. Luton, whose operating company is majority owned by TBI, has the smallest throughput of the four main London area airports (6.5 million passengers). Alongside its pre-existing charter airline customers, Luton has in recent years become the main base of low-cost no-frills carrier easyJet which now accounts for well over half of the airport’s traffic.

9. Together the three BAA London airports have substantial market power. And in the short run Heathrow would probably continue to have such market power even if the
three airports were not in common ownership. However, it should be said that Heathrow competes with other European hubs such as Frankfurt, Paris CDG and Amsterdam for connecting traffic, especially the substantial volumes travelling between Europe and North America.

10. Heathrow is an obvious example of the importance for airports’ competition of airline network externalities. It is clear that for British Airways, but also for others such as bmi British Midland – now part of the Star Alliance – and Virgin Atlantic, that Heathrow is much the preferred London airport. BA has periodically over the years sought to develop Gatwick as a second “hub”. By 1998 BA, its subsidiaries and franchisees held 45% of the available slots at Gatwick and served 103 destinations there, more than BA served from Heathrow. In 1999 BA bought outright its largest franchisee, CityFlyer, which held 12% of Gatwick’s slots. However, the difficulties of attempting to develop an effective hub at a single-runway airport and of bringing Gatwick into profit, combined with the aftermath of the terrorist attacks of 11 September 2001, have forced BA to abandon its hub aspirations for Gatwick and to adopt a strategy for the airport based on “point-to-point” short-haul services.

11. For many other smaller airports in the UK substantial market power may be less common. Under the Airports Act 1986 the Government is responsible for “designating”, by Statutory Order, the airports at which economic regulation is to apply. Logically such decisions should weigh any benefits of economic regulation against its costs in a general sense. The Government initially designated the BAA’s three London airports – Heathrow, Gatwick and Stansted – and Manchester Airport in 1987 and has since resisted pressures either to add to or subtract from these. Even though it is the economic regulator, the CAA has no discretion to vary these, although when recently, in reaction to a complaint from easyJet, the Government sought our advice as to whether Luton should be designated as a fifth UK airport subject to price capping, the Government accepted our recommendation that it should not as Luton did not meet even an initial market power test.

12. Outside the London area Manchester Airport is the largest UK airport. Manchester is subject to greater competition than either Heathrow or Gatwick. It has over recent years experienced some erosion of its market share in the North West of England by Leeds/Bradford airport (almost 50 miles away) as well as increasing competition from Liverpool airport (around 25 miles away), now a secondary UK base for low cost carrier easyJet and with a major new terminal. Although Manchester’s market share in its catchment area is still high enough to indicate significant local market power, growing competition combined with local government ownership and objectives, have led the CAA to be comfortable with a move away from a single till approach and the resulting “loose fit” price cap. This should protect users from excessive prices and returns on aeronautical assets, while minimising regulatory distortions and burden. Indeed, we have been concerned that the imposition of a tighter cap at Manchester could have the perverse effect of actually damaging growing competition from other smaller airports.
13. In Australia there are a number of examples of airports with low market power because they serve predominantly tourist markets that face a high degree of destination substitution. Although these airports are the only Regular Public Transport (RPT) airports in their respective cities, they face competition from airports in proximate locations: Alice Springs from Yulara, Coolangatta from Brisbane, and Hobart and Launceston from each other. In Europe generally, competition between airports serving different holiday destinations is widespread. However, this tends to be most prevalent among those holiday destinations, for example on the Mediterranean, where the market is wholly or predominantly a tourist one, something which is relatively uncommon at airports in the UK.

14. So far I have spoken about competition between existing airports. In the longer term airport competition may increase owing to the development of new airports or the expansion of existing ones. There are numerous examples of airports which overlap with or lie within the catchment areas of more major airports, but which currently do not in practice exert any significant competitive pressure on them. The first airport’s runway(s) might be too short, its terminal or surface access facilities inadequate, the overall scale of its capacity simply too small, or it might specialise in a particular market niche. But this position can change in the longer term. Airports used for non-commercial or specialised operations – for example general aviation or military purposes – have sometimes been developed for mainstream commercial air transport. However, even where such airports exist in commercially attractive locations, there are often major economic, financial or planning obstacles to their development.

15. In its January 2002 Report on Price Regulation of Airport Services, the Productivity Commission argued that even in the longer term there are significant barriers to entry in the provision of airports and that it is unlikely that a direct competitor RPT airport would emerge in any city in Australia. For potential airport developers, barriers to entry can be both economic and regulatory. Economic barriers stem largely from the size, the very long time scales, the lumpiness and the irreversible nature of airport investments. A potential developer of a new airport must consider very carefully the intrinsic risks associated with such a large sunk investment. If the venture does not succeed commercially much of the investment will not be recouped. In effect the cost of exit becomes the barrier to entry. And where the developer of a new airport would face competition from an existing airport operator with an overlapping catchment area, the risks may be exacerbated by the incumbent’s likely reaction in circumstances where its costs are already sunk and thus it is likely to benefit from very low short run marginal costs. To an extent the issue may become one of credibility. An incumbent may find it easy to threaten credibly to expand capacity, but if entry take place it might then recognise and accommodate this.

16. Regulatory barriers to entry can take a number of forms. In the UK, planning law, which seeks inter alia to address environmental externalities, is the single most significant. However, economic regulation itself can become a barrier to entry and competition. For example, as I mentioned in the context of Manchester Airport, care must be taken to ensure that the imposition of price caps does not impair the development
of competition from smaller airports in the same region. And in recommending a “loose fit price cap at Stansted, the CAA has taken account of the detrimental impact that a continued London airports system approach or a “tough” cap might have on the incentives for Luton to expand its capacity.

17. It is sometimes argued that there is no scope for competition where otherwise potentially competing airports are largely full. However, this argument should perhaps be treated with a degree of caution. Where airports are highly congested the scope in the short term for direct price competition may be limited. But airports are rarely completely congested and there is likely still to be scope for competition for marginal or off-peak traffic even at the more congested airports. And most terminals have excess capacity in off-peak periods.

18. In the South East of England, given the rapid development of the low cost airline phenomena in recent years, competition between Luton and Stansted – the two main European bases for such airlines – is now more important than it once was. There is also now greater potential for competition between Gatwick and Stansted. In the wake of the terrorist attacks of 11 September 2001 and BA’s movement of services out of Gatwick it has become clear that Gatwick is more commercially vulnerable than was previously recognised. BA’s run down of Gatwick services, and its release of runway slots there, has also resulted in the airport attracting easyJet. It now seems clear that there is the potential for competition between Gatwick and Stansted even without new runways.

19. More generally, there is likely to be scope in the longer term for strategic competition between airports. This might take a number of forms. For example, the large, indivisible and sunk nature of airport investment would seem to make achievement of “first mover advantage” particularly important in this industry and arguably should strengthen the likelihood of a “race” between potentially competing airports to obtain planning permission for, and to develop, additional runway or terminal capacity.

20. Strategic competition of this kind is perhaps most potent for the moment at the international level as the airline industry reshapes itself into global alliances. Amsterdam, Paris CDG and Frankfurt are, respectively, the European hubs for the Wings, Skyteam and Star alliances and the European carriers based at those airports, KLM, Air France and Lufthansa have been developing the kind of “wave” system seen at US hubs. To reap the full benefit of network externalities such systems place heavy demands on airport infrastructure. To offer the number and speed of connections of its rivals, BA has increasingly looked to Europe rather than to Gatwick for its second hub, although its attempts so far have been frustrated at least in part by the extensive government-imposed restrictions which still remain on international air services, particularly those on nationality of airline ownership and control.

21. Another form of strategic competition which has become an increasingly common feature in recent years is the development of niche strategies. The development of low-cost scheduled services at Luton and Stansted has created something of a niche role for these airports, although the scale of these services is now more significant than the term
“niche” would normally imply. By offering a differentiated product rather than by mimicking the services traditionally offered at Heathrow, the airports have widened their catchment areas and have obliged the full-service airlines to revamp at least the leisure end of their fare structure at Heathrow.

22. But where there is clear evidence that competition is relatively weak and that an airport possesses and will continue to possess significant market power, is this in itself necessarily enough to justify the introduction or continuation of economic regulation? I think there is a growing acceptance that the answer is “no”. Even where an airport has significant market power, economic regulation should only be contemplated where it is also clear that without it there would be a serious loss of economic efficiency, where other solutions are not available, and where the regulatory system itself, and the distortions it can create, would not actually worsen matters.

23. Regulatory failure can take a number of forms. While regulation seeks to constrain companies’ behaviour in a desirable manner, it is likely also to influence it in unintended ways. Most problematic is the impact on investment and dynamic efficiency. Regulation is imposed to pre-empt the threat of monopoly pricing, with its attendant distortions of allocative efficiency in terms of best use of existing capacity. But because the regulatory system exists, companies also begin to base their decisions on matters such as investment, innovation, new products, the quality of existing products and so on, on the regulator’s likely response.

24. Regulators know much less about companies they regulate than the companies themselves. Ex ante they do not have good information on true cost levels, likely future demand, the potential for cost savings, the best way of balancing conflicting demands on resources, the best technologies to use or experiment with, or the pressures faced from internal or external stakeholders. Regulators are not, and should not attempt to be, external managers of the companies they regulate.

25. Companies in regulated markets face different risks than those in competitive markets, but the risks can nevertheless be substantial. Market risk is replaced by the qualitatively different risk that the regulator might renege on the regulatory ‘contract’. And the existence of regulation creates scope for lobbying over the division of rents. In the absence of regulation companies must conduct their business as best they can, contracting where it is mutually beneficial to do so. But once regulation is in place, management time and effort is distorted into attempting to use the regulatory system to achieve commercial ends.

26. Regulation also entails direct costs. While these are generally small in relation to the sizes of regulated businesses, they are not trivial and indirect costs, for example in terms of senior management time can be large. Regulators’ own motivations can sometimes add further distortions. For example, a bias to ‘be tough’ in pushing prices down may bring better public recognition than allowing prices to rise, even though this might be the more efficient outcome. And there is the risk of ‘capture’ by regulated companies or by particular users or other interest groups.
27. Limits on the regulator’s powers may also be problematic. While often deliberate and providing a proper constraint on undue regulatory intervention, such limits may sometimes impede the achievement of the best regulatory framework. In the UK, the CAA has the final say on the price caps which will apply at the designated airports but, unlike the licence-based regimes common to UK utilities more generally, the price caps are our sole regulatory instrument. This makes compromises between the achievement of different regulatory objectives inevitable – for example the best use of existing runways versus incentives to invest in new runways – where such compromises would not be necessary if more, and thus less blunt, instruments were available.

28. In recognising that the major Australian airports – Sydney, Melbourne, Brisbane and Perth – have a high degree of market power, but nevertheless recommending price monitoring rather than CPI-X type price caps, the Productivity Commission was essentially expressing its view about the trade-off in terms of economic efficiency taking account of such potential distortions and costs of regulation, although this view was not shared by the ACCC.

29. In the UK, the CAA is required by law to set price caps every five years at those airports so designated by the Secretary of State. The issue of the ownership of the major London airports and the implications for airport competition and regulation in the South East of England has been reconsidered by the Government quite recently. In an announcement in November 2000, soon after we began our current regulatory review, the Government concluded that, due to the shortage of capacity in the south east, the scope for competition between airports is limited and industry and passengers would benefit more from modified regulation than from BAA being required to divest itself of one or more London airports. Against this background, the CAA’s review is not able and has not addressed the issue of competition between the major London airports as an alternative to price cap regulation. Instead it has sought to identify a regulatory framework which is likely best to meet the underlying objective of maximising the net gains to users and airports combined taking account of the costs of regulation.

30. The problems facing the four UK designated airports differ. At Heathrow and, to a lesser degree, at Gatwick, the key issues are excess demand for access to the airports’ runways and peak hour terminal capacity and the inability of the airports to deliver sufficient capacity to meet that demand. As capacity comes under growing pressure, there is a greater need for good incentives to provide desired service quality including safety standards. Against this are important environmental issues concerning airport expansion. These environmental issues are primarily addressed under planning law. Fundamental to the CAA’s review has been the belief that users interests will be best served by a framework that encourages the best use of scarce airport capacity, with strong incentives both to expand capacity to meet demand and to provide for desired levels of service quality.

31. Heathrow and Gatwick have significant market power, but the way in which this manifests itself differs from other regulated companies. BAA argues that it is subject to
countervailing buyer power from airlines and freight forwarders. While we recognise that intermediate users are often large and well resourced commercial firms, we have not accepted this argument as a generality, and believe that BAA can act to a substantial degree independently of its customers’ wishes. But because there is excess demand it is possible that if these airports were not subject to economic regulation the ‘monopoly price’ that they would set would be comparable to, or even below, the price that would eliminate excess demand. Therefore, at this price, there would be no loss of output. However, there could be a distortion of incentives to deliver additional capacity. If the BAA London airports were allowed to set prices to reflect short-run scarcity rents, their incentives to add capacity would be diluted, since the additional capacity would reduce these scarcity rents. Thus the main monopoly problem at these airports is less the current prices that they are permitted to charge, but more the impact that the regulatory framework has on the airports’ incentives to invest.

32. At Heathrow and Gatwick therefore the challenge is to identify a regulatory framework that will create the best incentives for optimal investment while addressing the short run allocative inefficiency that can result from prices being below short run marginal (opportunity) costs. This problem is not adequately addressed by the traditional approach to regulation where prices are set at the lowest level that is consistent with allowing a normal return on accounting asset values including new investments valued at cost. Moreover, at these airports the incremental costs of most new capacity appear to be significantly above the accounting costs of existing outputs. This is the opposite of the usual problem in utility regulation where increasing returns to scale mean that average accounting costs lie above incremental costs. Today, given that existing landing charges are low compared to marginal social costs, the slot market acts as the rationing device. Yet, it is clear that the slot market is quite inefficient because of the lack of clear property rights in slots.

33. In the time available this afternoon I can only give a very broad overview of some of the CAA’s main proposals for reform of the traditional RPI-X type hybrid price cap/rate of return model which has been applied to the designated UK airports since 1987.

34. First, we are proposing that the three BAA London airports should in future be regulated separately on a stand alone basis. Currently, BAA is permitted to recover its cost of capital for expanding the asset base at Stansted from charges at Heathrow and Gatwick. In the past such a system cap was justified on the basis of allowing BAA to recover the cost of investment in the earlier stages of Stansted’s development. The risk is that this may have led to excessive or premature investment there. But whatever the merits or otherwise of such a system cap in the past, there has been rapid growth at Stansted over the last five years and strong growth is expected in the future. A stand alone price cap at Stansted would also provide for a more level playing field for competition between Stansted and non-BAA airports in the South East, would remove the potential distortion whereby investments may be undertaken at Stansted even though its users do not value them enough to pay the life-cycle costs at that stage, and improve the transparency of regulation for each airport.
35. Second, we propose to replace the single till with a revised regulatory cost base ("RRCB"). This would mean regulated charges reflecting only the costs of the monopoly aeronautical facilities and services. Users would be protected from monopoly pricing, but the scope of regulation and the scope for regulatory distortions in other activities would be reduced. There should be a significant increase in airports’ incentives to invest in new capacity. At Heathrow and Gatwick the resulting higher airport charges would give incentives to better utilise available capacity and move prices closer to long run incremental costs. At Stansted the current situation where the price caps have not been binding in practice would continue.

36. Third, we propose a long run “price path commitment” (PPC) to apply at Heathrow and Gatwick. A key potential disincentive to airports investing in long term capacity is the inherent regulatory uncertainty they face, given regulators’ inability to commit long term, exacerbated by the size, very long timescales, lumpiness and irreversible nature of such investment. Increasing the existing five years between regulatory reviews might help, but is not an option immediately available to us and would not allow much flexibility in dealing with new capacity expansions as they emerge.

37. The PPC seeks to address this problem of regulatory commitment. It would be output based rather than continuing a standard regulatory asset base (RAB) approach. It would distinguish between “existing” and “new” outputs so that higher rewards would be available only when new outputs are provided at Heathrow. In the situation that prices are below incremental costs, the approach can be thought of as pricing along the incremental cost curve. The option of simply pricing at incremental cost might be superior in many ways, but would entail very high rent transfer and would thereby risk undermining the sustainability of the regulatory framework as a whole.

38. There would be two measures of new outputs. The first would relate to the timely completion of actual investments – in particular those leading up to the opening of Heathrow’s fifth terminal (T5), planned for 2008/9. The second would involve throughput above a 60 million passengers per year (mppa) benchmark, with such throughput being counted as incremental provided that T5 is open. The 60 mppa benchmark, which is the estimated existing capacity of Heathrow at reasonable levels of service, would apply only when T5 is opened because there is little scope to expand throughput prior to this without impacting on service quality. For throughput above the 60 mppa benchmark but below 90 mppa – the estimated capacity of Heathrow once phases 1 and 2 of T5 are complete – the airport’s reward would be linked to the incremental cost of delivering the new output.

39. As regards remuneration of existing outputs – defined as all throughput prior to the opening of T5 and throughput less than the 60 mppa benchmark level following the opening of the terminal – this would also follow a predetermined price path. This would “anchor” the present value of required revenues under the price path to the present value of required revenues under a simple RRCB approach. But it would also be designed so as not to fall significantly below the cap which would have obtained if the single till had
been maintained over the next five years from 2003 so that the CAA was not seen as reneging on its regulatory contract at a critical point in BAA’s investment cycle.

40. We do not envisage that BAA would be rewarded for pushing throughput beyond 90 mppa without further increasing the airport’s capacity. Were this to happen, the airport might receive only direct marginal cost per additional passenger and thus a decline in its overall price cap. Knowing this in advance would provide a strong signal to invest in timely capacity in order to avoid such a price cap reduction. On the other hand, since the price cap could be readily broken down into its various elements, it would be relatively straightforward to add another element remunerating a further increment of capacity.

41. Thus, while anchored in the RRCB, the long run price path commitment should provide a superior basis for price cap setting than continuing a standard RAB framework on a number of counts. It directly addresses the long lead times and long pay back periods for major capacity enhancements, and re-introduces the benefits of price cap incentives in relation to them. As an output based framework it provides a more direct link between what users want and the investment necessary to accommodate them. It transfers the risk of new capacity from users to the airport; the CAA believes that it is appropriate for the airport to bear this risk, but has allowed for a higher cost of capital (8.5% real pre-tax) to be applied to the costs of T5 to compensate. It makes explicit the high incremental costs of additional capacity and therefore acts as a better signal for the costs of new capacity than under a standard asset based approach. While providing sharper investment incentives, it provides for a simpler and less intrusive form of regulation than the standard RAB approach.

42. Another feature of our price cap proposals, and one which we have made quite explicit, is that they give BAA “something to lose”. The proposed framework gives BAA the prospects of higher returns over time than would have been the case if the single till were continued. While the CAA is committed to a stable long run framework, if the airports were simply to sweat assets, provide poor service quality, and unreasonably fail to meet user demand, BAA would perceive a risk that the CAA would revisit the framework at subsequent reviews. The risk of ‘something to lose’ should focus BAA on delivering services and facilities to the satisfaction of its users.

43. Fourth, we propose that the price cap would in practice be a “default” cap, specified so as to facilitate greater direct contracting between users and airports. Where in competitive industries a company undertakes large sunk investments it is of course common to secure these by writing long term contracts with major customers. In the airports context there is a strong argument in favour of a default price cap in relation to service quality. If each party, airport and airline, freely enters into a top-up contract compared to those paying the default charges, both benefit. It should also reveal important information about the value of quality which could be used in investment decisions and by the regulator.
44. However, there are potential pitfalls to avoid. It would be important to ensure that the default cap was not set at such a low level of quality that it would not provide an acceptable default position for the airlines in negotiation. Without such a credible threat of falling back on default prices and standards the airport would be able to use its monopoly power over the provision of quality to extract all the potential monopoly rents through its pricing of quality.

45. There might also be enforcement issues where service quality standards are the basis for a default cap. A price cap with a service quality term based on a par value would help provide a credible default position from which to negotiate top-ups. And even if this were initially a relatively modest term, it would provide a basis for future development.

46. Individual contracting may also raise questions of discrimination between different users. However, it should be possible to deal with these through general competition law, or in the UK’s case also through broadly equivalent provisions in the Airports Act.

47. The incentivising of appropriate service quality through a term in the price caps has also been an issue in its own right in our review. What we propose is incentivisation through a service quality term in the price caps at Heathrow and Gatwick. This would have three components: quality dimensions of primary interest to airlines, those that are of primary interest to passengers, and an airport congestion delay term. The first would be asymmetric, with poorer performance resulting in a reduction in the price cap but no reward for outperformance, while the other two elements would be symmetric.

48. Looking to the future, changes in the airline industry, through mergers, alliances, the development of no-frills or other new markets and so on may well influence both the nature and degree of competition between airports. Nevertheless, the extent to which airports will compete with each other is likely to continue to depend to a significant extent on their particular local or regional circumstances. In Australia the distances involved and traffic volumes may continue to limit substantially the potential for competition between airports serving the major cities, other perhaps than as the point of entry for international traffic. In the UK, as I have described, the position with respect to the future potential for airport competition is arguably more complex, particularly in the South East. For the time being at least, Australia and the UK seem set on rather different approaches to airport competition and regulation, with the UK CAA contemplating radical improvements to the way in which it regulates the major UK airports while Australia goes even further and replaces price cap regulation with price monitoring. Clearly it will be important to watch carefully the outcomes of these different approaches as they unfold.