Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title: Applying spectrum pricing to the Maritime and Aeronautical sectors

To (Ofcom contact): Michael Richardson

Name of respondent: Russell Clements

Representing (self or organisation/s): Cardiff International Airport Operations Ltd.

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	✓	Name/contact details/job title	
Whole response		Organisation	
Part of the response		If there is no separate annex, which parts?	

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Name Russell Clements Signed (if hard copy)

Michael Richardson
Administered Incentive Pricing Consultation
Ofcom
Riverside House
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30th October 2008

Dear Mr Richardson,

CARDIFF INTERNATIONAL AIRPORT RESPONSE TO OFCOM'S CONSULTATION ON APPLYING AIP TO AERONAUTICAL SPECTRUM USE

Thank you for the communication regarding the Ofcom consultation on applying AIP to aeronautical spectrum use. Whilst Cardiff International Airport (CWL) supports the principle of ensuring efficient use of spectrum, CWL believes that this must only be as part of an internationally agreed programme of operational and technological change.

The AIP proposal seeks to attach an economic value to the use of spectrum, with the market determining the level of economic value. Where there is no ability to trade, as in the case of aviation (due to international constraints and agreements), then there is no market.

CWL will not support any degradation of the current safety standards that are supported by the use of aeronautical radio and radio-navigation aids as mandated through the Air Navigation Order. CWL believes that an unintended consequence of AIP is that it may have an effect on the safety of air transport, with users reducing equipment levels to reduce costs, particularly where general and commercial aviation interacts.

The AIP proposals in their current form will present airports with a significant cost that they will not easily be able to pass through to their customers, for Cardiff International Airport this will be in the region of £640,000.

For these reasons CWL cannot support the proposal from Ofcom. The following pages detail our answers to the consultation questions.

Yours sincerely,

Russell Clements
Director of Operations

Question 1: How should Ofcom manage the process of taking advice from users, regulators and government on efficient apportionment of AIP fees in the maritime and aeronautical sectors? Are any new institutional arrangements needed?

The Cave Audit recommended that where international agreements precluded the reallocation of spectrum then the opportunity cost of that spectrum was zero (unless an alternative aviation use existed). This was tacitly endorsed in the Government's response to Cave.

Question 2: If you consider that our proposals for pricing ground station users for any spectrum would be likely to have a detrimental impact on safety, please let us know. In order for us to understand your assessment fully, it would be helpful if you could outline the mechanisms whereby this might happen.

Ofcom has argued that as the use, or carriage, of safety equipment is mandatory for some aircraft and airports it would be impossible for AIP to bring about a detrimental impact on safety.

This is somewhat disingenuous, as it's tantamount to admitting that AIP will be unable to bring about spectrum efficiencies in some circumstances, which seems to undermine the case for applying the AIP cost.

More broadly, some parts of the aviation system are not subject to mandatory safety requirements- particularly the general aviation sector. Introducing an elective cost on the use of VHF and navigational aids and some GA flyers will vote with their feet: foregoing VHF systems on their aircraft, and flying from unlicensed aerodromes which aren't subject the CAA's rigorous licensing criteria. This in itself would represent a material detriment to safety.

Question 3: Do you have any evidence which indicates that AIP charged to ground stations could have a material detrimental impact on UK competitiveness?

Aviation is a significant industry in its own right: supporting over 700,000 jobs and contributing more than £14 billion to national GDP. Aviation also plays a vital role in underpinning the success of other sectors of the UK economy.

The Eddington Study noted that the "connectivity of the UK's airports is particularly important for supporting certain types of business activity, such as the financial services and banking sector". The report went on to state that two key determinants of connectivity were the range of destinations served, and the frequency of connections.

Eddington was unequivocal in its view that good aviation links are vital to support the growth of regional economies. Air services from outlying regions are, by their very nature, 'thin' routes; carrying relatively small numbers of people in small aircraft. As such their economic position is precarious. The Study also placed great importance on the ability of air transport to allow people to travel and do business elsewhere in the UK, or abroad, in a single day.

AIP costs do not reflect the size of an airport, or its ability to pay solely the scale of its VHF and radio navigational aid use.

AIP will impose costs which airports, will find difficult to pass on, and which will restrict their profitability (see next question). Airports unable to operate profitably are simply unable to operate. The loss of jobs and services would, in turn, have wider economic impacts.

Question 4 : Taking into account the information available in this document, including that set out in Annex 5, our initial views on VHF radio communications licence fees and on the reference rates for bands in other uses, and any information you have about the organisations to whom we are proposing to charge fees, please provide any evidence that you think is relevant to us in considering the financial impact of the fees we intend to propose for VHF radio communications, or for other uses.

The potential AIP costs for London Luton Airport, as set out in Ofcom's consultation document are as follows, which exclude any charges for the use of NATS radar equipment:-

System	*Reference rate*	*No of frequencies*	*Cost*
Air Secondary Surveillance Radar (1030 - 1090 MHz)	£126,000	1	£126.000.00
L Band Radar (1215 – 1350 MHz)	£126,000		
S Band Radar (2700 – 3100 MHz)	£126,000	1	£126,000.00
X Band Radar (9000 – 9500 MHz)	£17,000		
Microwave Landing System (MLS) (5000 – 5250 MHz)	£32,000		
Instrument Landing Systems (ILS) (108-112 MHz / 328.6 – 335.4 MHz)	£115,000	2	£230,000.00
VHF Omni-directional Range Stations (VOR) (108 – 117.975 MHz)	£115,000		
Distance Measuring Equipment (DME) (960 – 1215 MHz)	£126,000	1	£126,000.00
Airborne Weather Radar (5350 – 5470 MHz)	£32,000		
Airborne Radio Altimeters (4200 – 4400 MHz)	£32,000		
Airborne Doppler Radio navaids (13.25 – 13.40 GHz)	£19,000		

Channel Bandwidth	*Reference rate*	*No of frequencies*	*Cost*
8.33 kHz simplex channel	£ 1650 per license		
25 kHz simplex channel	£ 4950 per license	6	£29,700

Total cost - £637,700

Question 5: Do you agree that there is little to be gained, in terms of economic efficiency, from charging AIP to WT Act licences for aircraft?

No. Aircraft are effectively mobile stations, broadcasting on VHF and some radio navigational aids. If they continue to use spectrum to the same extent that they currently do, then the suggested benefits of AIP in terms of spectrum efficiency become even more illusory.

Equally, it would be difficult to apply the costs of AIP via an intermediary such as airport landing charges. The nature of the commercial agreements between London Luton Airport and its airlines is such that a new cost such as AIP could not necessarily be passed on within the scope of existing contracts.

Question 6: Do you consider that we should discount fees for any particular user or type of user? Specifically, do you consider that there should be a discount for charities whose object is the safety of human life in an emergency?

We believe that Ofcom should be consistent with the recommendations of the Cave Audit, and apply an opportunity cost of zero where international agreements prevent the reallocation of spectrum on a unilateral basis.

Question 7: Do you agree that Ofcom should apply AIP to ground stations' use of maritime and aeronautical VHF radio communications channels, to help manage growing congestion in current use and to ensure that the cost of denying access to this spectrum by potential alternative applications is faced by current users?

The aviation industry has recently invested considerable amounts of money in moving to 8.33 kHz VHF channel spacing. This increased efficiency in spectrum use was incentivised not by a spectrum cost, but the need to increase the number of channels available to aeronautical users as flight numbers increase.

VHF allocations are not made within the UK, but internationally. The ability of the UK to abrogate those arrangements unilaterally is doubtful, so the scope for VHF reallocation away from aviation is unclear.

Any alternative applications for reallocated VHF spectrum would have to be subject to strict controls on interference, to prevent any diminution of aviation safety. This could also prove a bar to alternative uses, which would in turn strengthen the argument against unilateral reallocations.

Question 8: Do you agree with our initial view that it would be appropriate to apply a pricing system similar to that already existing for Business Radio licences to maritime and aeronautical VHF communications? If not, what are your reasons for proposing that we should develop a fee structure for maritime and aeronautical VHF channels which is distinct from that already established for Business Radio?

No comment.

Question 9: Are there any short term reasons specific to the sector(s) why it would be inappropriate to apply fees from April 2009?

The aviation industry is currently facing the ongoing impact of historically high oil prices, albeit they have now fallen back below $100 a barrel. The high price of oil, together with ongoing financial and economic turmoil has weakened the performance of the industry. 6% annual growth across Europe in 2006-7 has fallen to 0.1% in 2007-8 (source: ACI Europe). This precarious position has been reflected in the failure of a number of airlines: most notably XL Airways, but also EOS and Silverjet. To date only one airport has closed: Land's End St. Just.

From November 2009 a new aviation tax, Aviation Duty, will apply to flights to and from the UK. This tax will be considerably more complex than the Air Passenger Duty it replaces, and has the potential to increase the financial pressures on the sector.

Changes from the SESAR programme could allow for replacement of assets from 2016 at the earliest. LLA suggests that the implementation for AIP in the aeronautical sector is deferred until 2020, and phased in only as and when alternative technology comes on stream. We believe a similar arrangement has been agreed for the broadcasting sector with AIP deferred until the completion of the digital switchover in 2014.

Question 10: Ofcom would welcome stakeholders' views on the factors which should be taken into account when apportioning fees between individual users of radars and racons.

The Cave Audit recommended, where international agreements preclude the reallocation of spectrum to alternative non-aviation uses the opportunity cost of that spectrum is zero.

Question 11: Do you agree with our initial view that a reference rate of £126k per 1 MHz of national spectrum for L band and S band radar spectrum would achieve an appropriate balance between providing incentives to ensure efficient use of spectrum while guarding against the risks of regulatory failure in setting the reference rate too high? If you consider a different rate would be more appropriate, please provide any evidence that you think we should take into account.

The Cave Audit recommended, where international agreements preclude the reallocation of spectrum to alternative non-aviation uses the opportunity cost of that spectrum is zero.

Question 12: Do you agree with our initial view that a reference rate of £25k per single MHz of national spectrum would be appropriate for deriving fees for licences to use X band radar?

The Cave Audit recommended, where international agreements preclude the reallocation of spectrum to alternative non-aviation uses the opportunity cost of that spectrum is zero.

Question 13: Do you agree that, generally, spectrum used by aeronautical radio navigation aids is currently uncongested? Do you believe that this may change during the next few years and, if so, approximately when?

The currently uncongested nature of the spectrum used by aeronautical radio navigation aids is evidence of a lack of competing uses. This suggests that there is no justification for a high rate of AIP, as increased efficiencies would bring little real benefit (even assuming international agreements were changed to allow a re-allocation of spectrum).

Question 14: Do you agree with the basis on which Ofcom has arrived at its initial view on reference rates for aeronautical radio navigation aids?

The Cave Audit recommended, where international agreements preclude the reallocation of spectrum to alternative non-aviation uses the opportunity cost of that spectrum is zero.