

BAA plc

Background

The BAA plc (BAA) operates seven airports in the UK (including Heathrow, Gatwick and Stansted). Gatwick Airport Ltd (Gatwick) is a wholly owned subsidiary of BAA. The airport currently handles about 32 million passengers a year. This is forecast to grow to approximately 42 million by around 2015.

The nature of the rail services to central London is extremely important to Gatwick because road access from central London is difficult because of road congestion from London. Good rail access is critical to the growth of Gatwick Airport, for the tourist industry of London and the development of the economy of the South-East, especially if a second runway were to be built (which would increase capacity to about 70 million passengers a year). The only way Gatwick could handle this growth would be by making maximum use of the Gatwick Express (GEX). The GEX could be extended from its current configuration of seven cars plus a baggage car to 12 cars without significant work on the infrastructure.

Views on the merger

BAA would be content for the GEX and Thameslink to be run by the same train operating company (TOC) provided there were two TOC's running the three Gatwick franchises. It would be more concerned about the merger of the GEX and Southern if it leads to the withdrawal of Gatwick Express as a dedicated airport service.

The relevant markets

Thameslink and the GEX occupy distinct but overlapping markets which can be defined by:

- geographical location;
- service quality (for some passengers premium quality is very important irrespective of their destination); and
- purpose (passengers carrying baggage do not want to travel on a commuter service).

Thameslink has a 50 per cent share of the Gatwick to City market whereas the GEX has 80 per cent of the Gatwick to West End market and 30 per cent of the Gatwick to City market. About 75 per cent of passengers travelling between central London and Gatwick use public transport. Approximately 32 per cent of all origin passengers travel to Gatwick by public transport. BAA would like this to see this increase to 40 per cent. Realistically car use will grow but hopefully by not as much as public transport.

The key product characteristics of the GEX are: its frequency (four times an hour) for most of the day; it is non-stop; it has rolling stock designed specifically for air passengers; it is a service which rests in the station which means passengers are able to get on to the train immediately rather than wait on the platform; and passengers do not need to buy a ticket in advance. BAA is opposed to the suggestion by the Strategic Rail Authority, as outlined in the proposed rail utilization strategy for Brighton Main Line, to replace the GEX with a mixed commuter and airport service which will have very few of these characteristics and which might result in a switch to private transport.

BAA believes that to attract people on to rail you need to have a dedicated service with sufficient spare capacity into London. The spare capacity is required to cope with the

irregular arrival pattern of long-haul flights. The GEX runs significantly below capacity (average utilization is between 40 and 50 per cent) although occasionally peak (morning) services can be effectively full (at around 80 per cent utilization) corresponding with an influx of flights. A key facet of the GEX is its ability to accommodate passengers from long-haul flights and there are more spare seats on the GEX than Southern or Thameslink. Passengers arriving at Gatwick need a service which is reasonably frequent and which they can board irrespective of the time they leave the airport.

The services provided by Southern and Thameslink are also important but in different ways:

- Southern operates a stopping service which is helpful in terms of commuter traffic from suburban London. It also has a lower fare (£9) than the GEX (£13) (it is BAA's understanding that the Southern franchise receives a subsidy whereas the GEX pays a franchise fee of about £18 million a year to the Government). Historically, Southern has kept its fares low on the Gatwick to Victoria flow in order to gain market share. This policy has added to the congestion on the commuter service while seats remain empty on the GEX. However, a number of season ticket holders (about 450) use the GEX despite the cost (£2,800 as opposed to £2,000).
- The service provided by Thameslink is valuable because it opens up Gatwick to services from the City of London. However Thameslink suffers from a lack of capacity and overcrowding during the two-hour peak period.

At the moment Southern is advertising (on price) much more aggressively than Thameslink. BAA believes that Southern is advertising primarily to attract passengers from the GEX service. Thameslink and Southern do not appear to compete that strongly.

At current fare levels own-price elasticities are not significant.

The cross-price elasticity between Thameslink and the GEX is quite low and much lower than between Southern and the GEX. The very different financial terms of the Southern and Gatwick Express franchises has enabled Southern to price below the GEX and to increase its market share at the expense of the GEX.

Different categories of passengers use rail to varying degrees. Those travelling in a group or carrying luggage have different needs. The increase in low-cost carriers using Gatwick has corresponded with an increase in rail travel. Long-haul leisure and business passengers arriving in the UK tend to be very high rail users whereas usage among outward bound leisure travellers is not so great. The number of overseas leisure passengers using the GEX is seasonal and increases to about 45 per cent in the summer. Although some employees use the rail services to Gatwick most drive, which is partly related to their working hours and where they live.

Car and taxi are used by all categories of passengers. The factors that influence the choice between car, taxi and train are point of origin (ie proximity to a railway station) and price (if train fares became too expensive the taxi would be an appropriate substitute). Taxi services at Gatwick are regulated and are franchised on a five-yearly basis. Black cabs can transport passengers to the airport but are not allowed to pick them up. More outbound leisure passengers (especially in the South-East) travel by car than inbound leisure travellers. Although some of the major airlines offer business and first class passengers a free limousine service, a lot of them travel first class on the GEX.

Coach operators have failed to gain market share mainly because of the long and uncertain journey times associated with coach travel. The dedicated coach service to London from Gatwick, which had a market share below 3 per cent, stopped last year and is now part of the Victoria to Brighton coach service. Even though the coach price was much lower than rail

it was not seen as an attractive alternative. There is a limited coach service from Gatwick to central London which has a market share of about 7 per cent. It is important that the coach market is developed because it has a greater degree of flexibility and a far wider catchment area than rail. BAA is keen to promote bus and coach services and is a partner in the Fastway bus service which operates between Crawley and Gatwick. BAA is also a partner in Airport Express which is a joint venture with National Express which markets the rail services for Stansted, Heathrow and Gatwick into central London.