



THE CITY OF EDINBURGH COUNCIL
CITY DEVELOPMENT

ECONOMIC DEVELOPMENT

Ms Julie Hawes
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

10 th May 2007

Our reference; GB / CT

Dear Madam

Market Inquiry into the supply of airport services by BAA within the UK

Thank you for your letter dated 11th April seeking views from interested parties on the referral to you by the Office of Fair Trading of the supply of airport services by BAA within the UK.

First may I indicate to you that due to the coincidence of your consultation window with elections in Scottish Local government it has not been possible to formally endorse this response at this time at a full Council level, and this consultation response represents a Directorate viewpoint. However upon circulation of this correspondence within the new Council if there is a difference of emphasis or further comment this will be forwarded to your Inquiry.

I note from your correspondence that you would particularly welcome both comment on the grounds stated by the Office of Fair Trading for the referral and any further comment we may think of particular relevance to your subsequent inquiry.

We understand that the broad grounds for the reference by the OFT is their view that in respect of the supply of airport services in Lowland Scotland there are two principle features which they suspect , prevent ,restrict ,or distort competition. Namely the existence of development restrictions, and the joint ownership of Glasgow and Edinburgh Airports by BAA.

Given that Government policy as expressed in the White Paper does not support the creation of a new airport in central Scotland there is general recognition that the airport needs of the area will require to be met by provision from the two firmly established airports of Edinburgh and Glasgow. In as much as these two airports are owned by one operating company there is a de facto local monopoly of provision, Glasgow Prestwick at some 80miles from Edinburgh being too distant from the city.

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We consider that the OFT accompanying report clearly identifies this issue and then also goes on to identify what it sees as the dangers of a local monopoly in respect of competition, and the anticipated knock on effect to customers in terms of quality, price, and access. We also note that BAA have been robust in seeking to indicate where through operating practice they feel they have avoided or mitigated these dangers. The City Council also recognises the significant capital investment by BAA in the quality of facilities and capacity at Edinburgh Airport.

For Edinburgh, the city council is concerned to ensure that in comparison to our UK and European comparator cities, our local airport is offering a competitive commercial proposition to airline passengers and freight operations.

Given the complexity of the case being considered by the Competition Commission, and the body of evidence upon which the referral rests, we are content that these key elements/concerns identified should now be the subject of a major review and inquiry by you to bring forward a well researched and considered conclusion.

A key point that we feel we would like to make at the commencement of the inquiry is the absolutely critical importance of the airport, and its required optimum operational effectiveness in sustaining and growing the city region economy. You will be aware that in maximising the effectiveness and accessibility of the current airport, the Council and indeed the Scottish Executive has played and will continue to play a key role. In respect of Edinburgh there is substantial infra-structural investment proposed including direct tram and rail linkage, also this is aligned to significant area development and a new proposed business gateway in the West of Edinburgh.

The continuing success of the Edinburgh city region economy, in key sectors such as finance, the knowledge economy and life sciences, and tourism is fundamentally predicated on an accessible, fully connected, competitive, high quality local airport. In this respect we are aware of proposals for a second runway.

Indeed it is our experience that both key inward investment decisions/locations and the penetration of an increasingly mobile tourist market are dependant on direct point to point international and domestic connections. This is particularly important in respect of Scotland, which is the furthest away from the major hub airports of the South East of England and the country's peripheral geography in Europe and lack of viable alternative routes to select.

The high level of demonstrable dependence on the airport in Edinburgh and South East Scotland indicates how important it is that the local airport performs efficiently to fully support the local economy and community and to make the all important connections to the outside world. It is important here that BAA as a business with a variety of airport assets and income generators recognises the clear requirement, being in a quasi-monopoly position in respect Edinburgh airport, to operate in a manner which maximises the viability and vitality of the Edinburgh cost/income centre. In this respect the referral report appears to indicate that with substantial passenger growth and an existing and growing unmet demand for direct travel from Edinburgh, the airport is clearly viable, but that further growth/expansion may be at a slower pace than justified by local demand due to the joint ownership issue.

Whilst there are clear synergies in respect of strategic development and growth between Edinburgh and Glasgow city regions, in the absence of joint airport provision with state of the art transportation infra-structure it is essential that each city has access to an airport which itself can deliver a world class level of connection and service delivery. Given the juxta-position of Edinburgh –Glasgow airports and the high level of infra-structural investment required to create new capacity it may be tempting to see both airports as one business unit. Here it is concerning that OFT report does express the opinion that this may be the case in a number of areas with a negative impact on the true competitiveness of Edinburgh airport. Here however we also note that BAA cite their past and proposed future investment plans in both Edinburgh and Glasgow as an indication of their commitment.

Whilst the Council is not in a position to be prescriptive here, we would wish to see measures in place which safeguards the unique position of each city region airport and enhance the true direct connectedness of that airport in relation with all competitors (including others within the BAA portfolio).

This of course would need to be balanced against the need to ensure a viable business model for each airport, and reflect the appropriate available scope and scale of any regulative framework/recommendations.

In conclusion, the assertion by OFT that on the evidence of pricing and possible “bundling” of services that the current joint ownership by BAA of Edinburgh and Glasgow airports, combined with the development restrictions on new entry and expansion, may hamper or distort competition is concerning. Here we have sought to indicate why any operating business model for airport ownership must have as a fundamental tenet of its regulation/structure the ability to ensure that each city region airport is fully enabled to service its own operating hinterland to maximum effect, if that area is not to be disadvantaged. This is particularly important for the Edinburgh economy, which is particularly dependent on “connectivity”, is distant from major hubs, and is geographically peripheral in Europe, and has no major alternate transport links to continental Europe.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Holmes', written over a horizontal line.

Andrew Holmes
Director of City Development