

Gatwick Area Conservation Campaign **GACC**

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Response to the Competition Commission on the Supply of Airport Services

1. GACC, established in 1965, is the main environmental body concerned with Gatwick Airport. We have as members over 100 Councils and local environmental groups.

Protecting the environment

2. There has been speculation in the press that if Ferrovial were to be required to divest themselves of one of their London airports, Gatwick might be sold. We have no means of telling whether a separate company would be more, or less, likely to protect the environment.
3. A local company might be more responsive to local concerns, although there is not much evidence of that from other parts of the UK. On the other hand, more competition might lead to cutting corners on environmental protection, for example, if competing airports allowed more older noisy aircraft to use the airport. BAA has been susceptible to political pressure from the government on environmental issues, and this benefit may be lost.
4. Our over-riding concern at present is with climate change. Aviation in 2005 accounted for 13% of UK climate change damage¹ and this percentage is growing rapidly. We therefore feel that the purpose of the Competition Commission investigation needs to be carefully defined. If the purpose is, ultimately, to reduce cost of air fares that would be undesirable.

¹ Answer to PQ 2 May 2007

Extra capacity

5. Our main comment relates to the statement by the OFT that: *'In the South East of England, BAA's ownership of Heathrow, Gatwick and Stansted limits competition between airports to promote the delivery of extra capacity in a timely and cost effective manner'*. We consider this over simple.
6. There has been a great deal of criticism of BAA by the airlines, which is reproduced by the OFT. But much of this relates to the fact that most of the airlines want another runway at Heathrow, whereas the Government decided in the Air Transport White Paper, on the balance of economic and environmental arguments, that the first new runway in the South East should be built at Stansted. BAA, in our view, have acted correctly in following this decision: they would have been unlikely to have received planning permission for a new runway which was not in line with the White Paper.
7. The White Paper ruled out another runway at Gatwick, unless Heathrow was unable to meet certain environmental conditions. Construction of a new Gatwick runway before 2019 is also ruled out by a legal agreement, which the Government decided not to overturn. It is also made extremely difficult by the physical constraints of nearby towns and high ground. To criticise BAA for observing these limitations would seem foolish.
8. Further criticism of BAA has come from Ryanair who complain that the proposed new runway at Stansted is too grand. This, we suggest, should be ignored: the duty of BAA should be to build airports to serve the nation for many years ahead, not just to construct something cheap and nasty for Ryanair. Competition in the provision of public infrastructure would presumably require proper standards to be laid down.
9. Assuming that by 'extra capacity' the OFT mean extra runways, it would seem that they are being naïve in not taking into account the need for planning permission. In the case of major infrastructure projects, planning applications are decided by the Secretary of State. BAA have a long experience of the difficulty of obtaining planning permission for airport developments. At Gatwick their application in 1980 for the North Terminal was only granted after a hard fought six month long public inquiry, subject to extensive conditions. Their application for a new maintenance area was turned down. Their application in 1985 to develop Stansted was only granted subject to a limit on passenger numbers, and their current application to raise this limit is subject to a new inquiry due to start on 30 May. Their application for T5 at Heathrow lasted four years. It was only granted subject to a limit on passenger numbers. It is therefore entirely reasonable that BAA should proceed with due deliberation, undertaking full consultation and observing all the conditions imposed by UK and EU legislation..
10. It would seem unrealistic to suggest, as the OFT appear to do, that two or three competing airport companies might put in roughly simultaneous planning applications for new runways, and that they would all receive planning permission..

11. It would also seem to be a waste of resources to construct more than one new runway at the same time. While it might promote competition, it would only do so by causing unnecessary environmental damage on a large scale, which would be unacceptable to the public or to Parliament.
12. We are, of course, aware of the economic theory that a monopoly may deliberately go slow on providing new capital investment in order to maximise its return on its existing capital. In terms of runways, since Stansted is still operating at little more than half its full capacity we see no evidence that this theory applies to BAA. In terms of any accusation that BAA has been slow to modernise its capital equipment at Gatwick, we would be inclined to think that this is more due to the effect of the CAA price caps than to lack of competition.
13. Moreover, if one or two airports were sold off it would not produce a situation of pure competition. Each airport company would be aware of the others' plans, a situation sometimes described as 'quasi-monopoly'. It might well be that none of them would wish to be the first to invest in costly additional infrastructure projects with a long rate of return, and with no assurance that the predicted return would not be diminished by competition.

Price controls

14. It is in our view simplistic to discuss competition in the supply of air services without discussing whether price control on airport charges in the form of caps imposed by the CAA should continue.
15. If BAA is broken up, but price control remains, there will be little incentive to increase efficiency or improve the quality of services. Any extra profit earned would only result subsequently in a lower cap.
16. If price control were to be removed or relaxed, the effect at Heathrow and Gatwick, where demand for slots far exceeds supply, would be to lead to a substantial rise in airport charges, and thus in air fares. On climate change grounds, this would be welcome.
17. The present system whereby airport charges are held below market levels acts as a subsidy to airlines, and damages the future of the world. There would be great benefit in replacing the present system by one in which airport charges were allowed to rise to market levels, with the extra profit creamed off by a levy, as is the case with ITV advertising.
18. Removing price controls without such a levy would greatly increase the value of the airports which are sold off. It would thus result in a substantial windfall profit for Ferrovial, and little benefit to the UK. We doubt if this is what the Government had in mind when referring the matter to the OFT.

