

10 May 2007

Competition Commission
Ms Julie Hawes
Inquiry Coordinator
Victoria House
Southampton Row
London
WC1 4AD

Dear Sirs,

MARKET INQUIRY INTO THE SUPPLY OF AIRPORT SERVICES BY BAA WITHIN THE UK

1. The Scottish Council for Development and Industry (SCDI) is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. Its membership includes businesses, trades unions, local authorities, educational institutions and the voluntary sector. SCDI has offices in Edinburgh, Glasgow, Aberdeen and Inverness, and a London Committee. SCDI's broad membership includes BAA Limited, other airport operators and airlines.
2. SCDI submitted a response to the OFT Market Study into UK Airports in August 2006 and welcomes the opportunity to submit further views to this Competition Commission Market Inquiry. SCDI's views relate to BAA Scottish Airports.
3. In its response to the OFT, SCDI noted that the data and modelling that SCDI would require in order to reach a view on the impact of current ownership of airports and terminals, and any scope for enhanced competition in Scotland, was not currently available and hoped that the OFT's study would put this data and modelling in the public domain. Although the information provided by the OFT's study was useful, in SCDI's view it is still not sufficient to justify the definitive conclusions reached by the OFT.

4. Regarding the market within which the Scottish airports operate, SCDI agrees with the OFT conclusion that Aberdeen Airport is a separate geographic market to those of Edinburgh, Glasgow and Glasgow Prestwick International Airport (GPIA). However, SCDI is astonished that the OFT has concluded that Edinburgh and Glasgow Airports operate in the same market. It is SCDI's understanding that, according to CAA figures, in 2005 only 4.2% of passengers flying from Edinburgh originated in the Strathclyde area and 5.2% of passengers flying from Glasgow originated in Edinburgh. This minimal overlap between Edinburgh and Glasgow indicates that to all intents and purposes each airport serves distinct and different geographic markets and population catchment areas. Indeed, SCDI has in the past been involved in meetings with potential operators emphasising these distinct markets in order to attract direct routes to/from both Edinburgh and Glasgow to a common destination, e.g. New York.
5. This distinction is underpinned by the fact that of the destinations that are available from Edinburgh Airport, 95% are also available from Glasgow, a point stated in paragraph 5.73 of the OFT report. Furthermore, as stated in paragraph 5.74 of the OFT report, of the top 20 airlines at Edinburgh, 13 have a substantial presence at Glasgow, and of the top 20 at Glasgow, 12 have a substantial presence at Edinburgh.
6. This suggests to SCDI that operators regard both airports as serving distinct catchment areas and marketplaces.
7. SCDI notes the statement that, due to such duplication, "passengers may not have much incentive other than to go to the closest airport." This should be taken as a very positive benefit for the Scottish air traveller, particularly when the issue of surface access congestion to Edinburgh and Glasgow Airport is taken into consideration. There are also environmental benefits of encouraging passengers to travel to their closest airport and this also fits with SCDI's preferred option in its response to the 2002 consultation on the Air Transport White Paper of a "fly local" approach. <http://www.scdi.org.uk/file.php?id=1336>
8. The statement that "BAA tends to offer better deals to airlines which use both airports, i.e. Edinburgh and Glasgow, suggesting that current passenger usage patterns may to some extent reflect joint ownership", an allegation that is repeated in footnote 61, is to SCDI's knowledge,

completely false and is, in any event, prohibited. Footnote 101 on page 102 of the OFT report concerning an inquiry into this type of practice is highlighted in support of this point.

9. Paragraph 5.78 of the OFT document deals with substitution by airlines and records that no switching between Edinburgh and Glasgow Airports occurred during the relevant period. No further comment is made by the OFT on this subject. However, surely this shows that airlines were content with the charging policy at both airports, particularly if, as the OFT report argues, they serve the same market. In fact, SCDI would conclude that this is evidence to reinforce the case that each airport serves a distinct market and that charging at each is acceptable to airline operators.
10. In conclusion regarding Chapter Five of the OFT report, contrary to the statement given in paragraph 5.80, the evidence regarding BAA's airports in Scotland is consistent with Edinburgh and Glasgow belonging to different markets within Lowland Scotland.
11. Turning to Chapter Seven, "BAA Airports in Lowland Scotland", the OFT states that its key concern is with the increment in market power caused by BAA owning adjacent airports in Scotland at Glasgow and Edinburgh. It highlights BAA's 88% share of passengers in Lowland Scotland. However, regardless of ownership of these airports, the share of passengers using them is likely to be extremely high, particularly in their localities, as they will remain the dominant airports (this is especially true for Edinburgh). SCDI sees no evidence to suggest that a change of ownership would alter the dominant positions of both airports.
12. The OFT contends that it found no convincing argument as to benefits derived from BAA's joint ownership of Edinburgh and Glasgow airports. This seems to completely ignore several issues.
13. For example, BAA, in effect, self regulates on pricing with its RPI-3 charging regime at Edinburgh and Glasgow due to the fact that it is fully aware of its market position and is careful not to impose what may be considered excessive pricing that would simply encourage action to be taken against it by the competition authorities. Conversely, were

there to be separate ownership, the incentive to self regulate would be lost and it is perfectly feasible that prices would in fact be raised as each airport would, as mentioned above, remain the dominant airport in its respective area.

14. With regard to yields from aeronautical charges, Table 7.3 of the OFT study shows yields per passenger have fallen between 2000/01 and 2005/06 at Glasgow Airport. The OFT suggests that competition from GPIA has pushed prices down and contrasts this with the higher prices at Edinburgh. However, there is no comment on the fact that the table shows that yield per passenger has also fallen at Edinburgh Airport. Moreover, although GPIA may have had an influence on pricing at Glasgow Airport, it should be noted that the dominant presence of the operator Ryanair at GPIA, with its distinctive pricing model has had a significant impact. As Edinburgh and Glasgow are in different markets, they are unlikely to have a similar impact on each other as GPIA and Glasgow, whatever pricing model is used by the operators. Pricing at Scotland's airports is based on consideration of what the market for any individual route will be able to support and depends on many issues such as numbers of international flights, type of operator, i.e. low cost, and destination. These issues are more complex than suggested by the OFT.
15. One further area that SCDI does not feel the OFT study properly considers is the potential negative economic impact and risk associated with competition such as the potentially wasteful duplication of resources. SCDI understands that BAA Scotland has achieved productivity benefits in operating its three Scottish airports due to synergies such as back office management and administration, specialist skills and equipment sharing, and that these are considered good examples to its London airports. Furthermore, additional management support can be called upon from the wider Ferrovial Group.
16. At present BAA Scotland is closely involved in other transport infrastructure projects, particularly the flagship Glasgow and Edinburgh airport rail link schemes. These projects will bring about economic benefits by reducing congestion on major roads around Scotland's largest cities and cut carbon emissions which contribute to climate change. They are also national projects with the potential to improve access to the airports from across Scotland and significantly enhance the Scottish rail network. The airport

rail links enjoy widespread support from the business community. SCDI believes that the impact on these projects and, therefore, on the Scottish economy of any divestment of Glasgow or Edinburgh airports, to an operator without the same level of resources to contribute, should be borne in mind by the Competition Commission. The OFT noted that companies with large financial resources other than BAA can and do own and invest in airports. However, this is to severely underplay the size and resource base of BAA as a company and the expertise that it can call on within the BAA Group particularly since it is now further supported by Ferrovial Infraestructuras S.A. This could be important in the successful delivery of these projects.

17. A major issue for Scotland will always be safeguarding runway capacity at London for flights to and from Scotland. Interlining with major hub airports, such as London Heathrow, Gatwick and Stansted, is a necessity for Scotland given the limited size of the Scottish market. Business travellers require flexibility and high frequency of service that hub airports can offer.
18. For this reason a key issue for Scotland regarding this Market Inquiry is safeguarding access to the major London airports. SCDI is aware of the ever-escalating demand for slots at London airports. Any decision taken by the Competition Commission on BAA's airports in London must ensure that investment in those London airports is safeguarded and that capacity is allowed to increase in response to demand and access to those airports from other areas such as Scotland is protected.
19. Finally, SCDI would emphasise that BAA Scotland is committed to investing £500 million over the next ten years in its Scottish Airports and its own Route Development Fund (RDF) of £95 million has helped, alongside the much smaller Scottish Executive RDF, to attract an unprecedented number of direct air routes from Scotland supporting improved connectivity to the rest of the world which is vital for a small, open economy. Since 2000, there have been 162 new services to 92 new destinations established from BAA's Scottish airports. The total benefit of these routes to the Scottish economy will be measured in tens of millions of pounds.

20. The Competition Commission will have to satisfy itself and Scottish business and civic communities that this impressive growth achievement, with its critical importance to the wider economic context and the broad public interest, will be continued under a different ownership regime. As this may not fall under the narrow remit of the Competition Commission, SCDI is copying this letter to the Secretary of State for Scotland and for Transport and to Scotland's First Minister (when elected).
21. I trust these comments will be given consideration. SCDI has no objection to these views being published and fully attributed.

Yours faithfully,

Alan Wilson OBE
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