

Views of other airport operators on separate ownership of BAA airports

We also sought the views of other airport operators on how separate ownership might affect the performance of the BAA airports:

- (a) Manchester Airport Group (MAG) said there were probably some big wins to be gained in terms of the culture of the airports and their approach to business. If, hypothetically, Gatwick was owned by an independent operator, its approach to business and service standards might well be very different—and could quite probably involve a very aggressive approach to cutting operating costs and reducing capital expenditure requirements. In Stansted's case, for example, BAA was driving fast towards incurring an investment bill for new capacity that was out of all proportion to the ability of the incumbent airlines to realize the necessary income to pay for it. MAG would have started with a much more airline-customer-related view of what was wanted. Further, BAA had told the Transport Select Committee not long ago that it did not know where it wanted its next tranche of new capacity to be. Under separate ownership each airport would know precisely what it wanted to achieve in this respect.
- (b) London City told us it believed that there would be benefits from the competitive tension between Heathrow and Gatwick that would result from separate ownership, and that Gatwick would see itself as wanting to compete with Heathrow and perhaps the other European hubs, and would be strenuous in its efforts to do so. Gatwick had been losing airlines to Heathrow over quite an extensive period of time, but currently had no incentive to fight for business. With the potential for a second runway, Gatwick would be in a position to increase its capacity, but could also consider its market, the focus of its business, and the service quality it offered. There was, for example, a huge unsatisfied demand in London and the South-East for corporate aviation and if Gatwick were to move in this direction it would give it a very different business focus.

- To become a hub airport, however, would depend on having a hub network carrier, which had not previously succeeded at Gatwick. But Gatwick could also focus successfully on performing well in providing charter, low-cost, corporate aviation or business scheduled services. As to whether Southampton could be promoted as an option for travel to or from London, it was not currently in BAA's interest or that of its Heathrow customers to do so.
- It would be challenging, but possible, for someone other than the airport operator to own a terminal within an airport. For different types of businesses to operate within the same facility would be very difficult because of the problem of differentiating costs; but to build a dedicated facility which was engineered and designed differentially would seem viable. Terminals could be named differently and they could be given different identities. In the USA airlines owned and managed their own terminals. This approach could, however, be anti-competitive and create barriers to entry, and separate ownership of terminals had failed in Toronto, but London City believed there could be an advantage in separate management. It would provide competitive tension so that people could compete for different markets if they chose to.

(c) London Luton Airport believed that if Heathrow and Gatwick were to compete together, it would expect them to be more aggressive. It said that it would expect Gatwick to fight harder to retain the long-haul services which were planned to move to Heathrow on 31 March. It said that the question of capacity resulted from planning restrictions and not BAA's inactivity. It would expect Gatwick to be more inclined to address strategic questions if it were under different ownership than under the current combined ownership. It said that separating Gatwick from BAA was perhaps the best chance of creating the most viable competitor, although it would still be a competitor half its size.

(d) Bristol Airport believed that if the BAA London airports were split up, there would be a degree of active marketing, variety and innovation that did not currently exist. However, it did not see how a combination of competition and traditional cost-based RPI minus X regulation (which tried to replicate competition) would work. Setting an artificial price

distorted the market. The other problem that Bristol foresaw was that the regulator would have to underwrite the capital expenditure programme at each of the airports and it was quite difficult to see an investment could be underwritten which would make an investment that was subscribed to somewhere else not viable. Bristol saw a justification for a break-up of the BAA airports to create competition but in that event much less justification for regulation. If the airports could not run without regulation, Bristol thought the break-up argument decreased.

- Separate owners could change the appearance of the facilities, the deals done with airlines, and how they approached airlines. London City and Luton Airport were examples of airports that were operated in a different way from the BAA airports and Bristol believed that a range of different management approaches, technology, solutions and experiences could increase the choices available to airlines and passengers.
- Bristol Airport commented that there tended to be a common design and planning approach and management culture at every BAA airport which was independent to what the market was doing or of the fact that some of the airports, eg Edinburgh and Southampton, were primarily local airports. Bristol Airport had a far greater degree of independence and tended to approach things more flexibly.
- New owners of Stansted would instinctively want to invest in a new runway because that would be the main way of developing the airport to meet its long-term potential. However, they would also be deterred to some extent by the possibility that another company could make an investment in its own facilities that would make the runway investment non-viable. So it was not straightforward: under a continuation of heavy-handed regulation, it could come back to the question of the regulator being prepared to underwrite competing investments which might not be simultaneously viable. One approach which a new owner of Stansted might adopt would be to turn the airport into a low-cost airline airport, with no piers or loading bridges, terminals no larger than 10 million and potentially with a shorter second runway. Such differences might not be

regarded by the Government in its overall plan for the development of regulation as desirable.

- (e) Peel argued that BAA's common ownership of airports, in the South-East and Scotland, affected its investment decisions in the absence of the competitive pressure that occurred elsewhere in the UK. It did not believe that there was no scope to create a more efficient capacity system, in south-eastern air space and the airports in the region, but thought there might have been earlier investment in additional airport capacity under separate ownership.
- (f) Infratil told us that there was a good argument for BAA's common ownership of the three London airports. The main feature holding back BAA's investment in London airports was planning. Stansted was, in addition, constrained by its low-cost carrier business model of its dominant low-cost carrier. The three airports were ultimately competing over the utilization of capacity. The only thing that airports could do once they became full, however, was to compete on quality. It was therefore difficult to see how a break-up could substantially change things, although it may lead to a different approach to dealing with airlines at different airports, or a more rational organization of utilization between the three. Infratil was reasonably confident that if it became the owner of any BAA airports, it could effect significant economies.
- (g) Among other comments we received from an airport operator was that a change in airport ownership (a move away from the multiple BAA ownership) is very likely to result in a more efficient private airport management approaches and practices; if BAA airports were separately owned, they would be able to take a more proactive approach to creating extra capacity, improve efficiency, quality of service and most importantly compete more successfully.