



AIRLINE OPERATORS COMMITTEE – HEATHROW (AOC)

Response

To The Heathrow and Gatwick Quinquennial Review

Jim Hunter
General Secretary

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Executive Summary

In advance of a quinquennium – there has probably not been a better dialogue between BAA and the airline community – using the CAA inspired constructive engagement process.

Notwithstanding, despite ongoing dialogue, there remain out-standing differences between the parties.

At Heathrow, cost and value for money have the constant attention of the airlines.

The challenging Heathrow operating environment – will come under greater pressure in the next five years and beyond – with considerable construction and re distribution of some 60% of airlines. The redistribution of airlines, at Heathrow, is vital to the achievement of a balanced and efficient airport operation. BAA must demonstrate their stated commitment to the achievement of ‘Competitive Equivalence’ across the Heathrow campus through robust enablement of the airline moves.

The interests of the passenger and the integrity of the operation will require constant safeguarding – during the period.

The aspirations of a monopoly supplier must be counter balanced by the influence of the Regulator – such that the normal leverage of competition is recreated by other means.

The AOC is willing to provide any further information that the Commission might require either in writing or verbally.

1. Introduction

- 1.1 The Heathrow AOC represents the interest of eighty eight Airlines at Heathrow. The AOC is therefore grateful for the opportunity to participate in the quinquennial review. Our response is only in regard to matters pertaining to Heathrow.
- 1.2 Heathrow as a commercial and operating environment presents a ‘difficult cocktail’. Slots are highly prized and desired – yet one of the world’s busiest airports is crammed into a relatively small geographical space – this creates a constant operational challenge.
- 1.3 The cost of operating and the quality of service to be purchased for that cost are constant dynamics – which are at the forefront of the airlines attention.
- 1.4 The fact that a high proportion of that cost is derived from a monopoly supplier represents a key factor. The airlines therefore, strive to influence and work with the Airport Operator to contain and reduce such costs. As important, is the influence of the Regulator in counter balancing the loss of leverage of competition and ensuring an environment which supports the passenger’s interest and modifies the influence of a major supplier.
- 1.5 The Single Till is an import adjunct to this regime – creating a valuable contribution from non airline interests who however, benefit greatly from airport and airline operations.
- 1.6 The Airline Community welcomes the introduction of constructive engagement. Not only has this been a participative process in producing an element in the determination of ‘Q5’ – it has been reflective of the present quinquennium. It has also led to a greater understanding and cohesion between the participants. There are strong indications much of the dialogue will continue on an ongoing basis.

2.0 Charges

2.1 Regulated

- 2.1.1 The proposed 50% increase in costs for the Q5 period - is compounded on top of an accrued 50% increase during the current quinquennium. This compares unfavourably with competitor (to Heathrow) Airports – thus putting the Airlines operating at Heathrow at a cost disadvantage.

The above statement is supported by the following:-

- Projected increased capital spending in Q5, in the region of GBP 1b;
- (Likely actual increase, by the end of Q4, GBP 0.5b);
- Operating costs increases in the region of 30% per annum;

2.2 Non Regulated

2.2.1 Some progress has been made by flowing the Non-Regulated Charges, 'CE' work-stream, out of the Specified Activities Permanent Working Group (HAL and AOC). The work will now continue within the specified activities group. However, although visible consultation, governance and monitoring are of a much higher order – the pressure on annual price increases remains.

2.2.2 Whilst some of this increase in charges is commodity driven – there is very little headway into the reduction of cost by greater efficiency and wider use of sub-contraction. Reduction in costs is fundamental going forward and impediments which, by proven track record, have been over-come by the airlines should not be offered as permanent mitigation by BAA.

2.2.3 The AOC has been a major contributor to discussions on baggage infra-structure, and running costs and there proposed compartmentalisation. This should lead on the one hand to investment in infra-structure, through airport charges – with a per bag price, (Opex) consistent in each terminal, on the other.

2.2.4 Check-in charges and rents have been the subjects of the same 'level playing field' ethos. (All to become effective 01 April 2008 – in keeping with the commencement with Q5).

2.2.5 As Q5 progresses – it will be essential to ensure that such charges remain visible and only remunerate incurred costs.

2.3 Operating Costs (Opex)

2.3.1 Constructive Engagement has provided the opportunity for the airlines to inquire, albeit at a macro level, into specific areas of significant BAA Opex. In areas where high labour costs appertain

The airlines sought to probe the comparable efficiency of employee contracts of employment, working methods and staff rosters. From the initial investigative work, and when compared with the efficiencies that the airline industry has had to implement to remain competitive, there appears to be potential for significant cost reductions in designated operational areas. The Airlines have managed to embrace such efficiencies in the same adverse industrial climate as is constantly sited as a major impediment by BAA. Moreover in the airline case, the strict contracts and service level agreements between customer and provider have ensured no diminution of passenger service whilst reducing cost and increasing efficiency.

- 2.3.2 The airlines are concerned that the annual increase in RPI may be considered as justification for increases in Opex costs. The airline industry, in the main, have over a period of time been forced to innovate and implement efficiencies which lead to reductions in costs in order to self finance RPI increases and rewards to staff for improvements in productivity. The airlines would like to see a greater determination on the part of BAA to implement comparable efficiencies.

3. Traffic Forecasts

- 3.1 Reduced Traffic Forecasts – The proposed (reduced) levels, by The BAA have been consistently contested by the Airline Community. It is thought unlikely that this issue will be resolved within the confines of Constructive Engagement (CE). They are by any ‘yard-stick’, conservative. This is particularly significant in regard to transfer volumes.

Such volumes are not the result of constant patterns. The volumes follow economic cycles – and can and will be switched on at short notice when other revenues are ‘soft’.

Again, the Airlines face a difficult operational challenge in this regard. The hopes for intra terminal synergies will not be accomplished fully until after mid 2012 (within the final year of Q5). Even beyond that point some of the greater airline transfer pairings will remain at the widest inter terminal distances. Thus an ‘Economic Cycle’ increase in transfer numbers would be a double blow – vis:- ahead of forecast; a disadvantageous operating environment.

3.2 It should be noted that it took prompting from the CAA for BAA to provide their charges forecasts in detail. The AOC were not content that the information had to be restricted because of the Ferrovial take-over.

4. Service Quality

4.1 There has been considerable dialogue between the parties – (still ongoing).

4.1.1 Payments should be made (monthly) over a twelve month period;

4.1.2 The amount at risk should be increased from 3% to 6%.
This is not because the amount of money is important – service to the passenger is the paramount factor. However, if as out-lined by the Airlines – the number of factors is increased, and payment is made over twelve months – the amounts will lose their significance as incentives;

4.1.3 The AOC believes that the original concept, which as the result of a Competition Commission finding, was one that under-pins the provision of good customer service for the benefit of the passenger.

It has been clearly demonstrated that Airport Operators can improve service quality when incentivised by such a mechanism. The AOC therefore, supports the retention of all existing metrics.

Notwithstanding the agreed standards of performance – the Airport Operator should be striving for a 100%.

The AOC therefore, fails to see how such a regime, set up to incentivise the Airport Operator to improve their standards – is adaptable into a system that rewards that which should be aspirational.

The AOC also has difficulty in the concept of investment to improve quality service per se.

We make investment to improve service and efficiency but that for the most part is incorporated in the overall investment to replace the ‘time expired’ improve the environment and ultimately to under-pin expansion. We are in danger of double counting.

Where improvement required additional man-power as opposed to infra-structural investment – this must be at a much lesser cost base than that of today.

4.1.4 The AOC are desirous to see improved metrics in on pier service and (direct) security queuing.

4.1.5 Additional metrics to cover:–
Transfer Security Queuing – (with the same metric as direct)
Control Posts (Landside/Airside Access)
Provision of Stand Entry Guidance
Provision of fixed air supply

Rationale (for 4.1.4/4.1.5 above) is based on the AOC's desire to maintain passenger service and operational integrity during a period of almost unprecedented construction airline relocation – covering the entirety of Q5.

Without the safeguard of these metrics and the continued interest of the Regulator – the balance of influence will shift from the interest of the passenger to the interest of the constructor and logistical ambitions of the Airport Operator.

5. Aerodrome Congestion Term

5.1 There are inferences that the money at risk pertaining to this term maybe reduced to fund an increase to quality service.

The AOC would contend that this, in its own right, is an important part of the incentive fabric.

5.2 A high degree of out-bound airline delay is predicated on late arrival – the cause of which is out-with Airline Control.

6. The AOC would further welcome the opportunity to address the above issues before The Commission.