

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

Response by the British Air Transport Association (BATA)

1. The British Air Transport Association (BATA) is the trade association of UK-registered airlines. Our members cover the range of business models including scheduled, charter and freight operators and produce over 85% of UK airline output.
2. BATA welcomes the market enquiry into the supply of airport services by BAA within the UK. We are in broad agreement with the analysis included in the report published by the Office of Fair Trading (OFT) on 12th December 2006.
3. The dominance of BAA in the ownership of airports has been felt by all airlines operating in the UK, but particularly by those UK airlines who have operating centres (a significant presence or substantial sunk marketing and infrastructure costs) at capacity constrained airports in the South East of England. Both Heathrow and Gatwick airports have been operating at very close to their capacity limits for many years and BAA's ownership of both airports and Stansted has resulted in development strategies which reflect corporate objectives of maximising the use of assets and investment returns rather than addressing the needs of the air transport market.
4. Their common ownership of all three largest London airports has resulted in BAA being less than enthusiastic in its development of Heathrow or Gatwick over many years and too ready to accept capacity limitations during local planning processes. BAA's strategy over the years has not adequately recognised the inherent demand for additional capacity at both Heathrow and Gatwick.
5. For many years, BAA has argued for price regulation at their South East airports to be on the basis of a "system" or group of airports. For a number of years this approach allowed development at their least profitable airport to be funded from their most profitable. BAA continued to lobby for this "system" approach long after CAA had decided to regulate airport prices on a stand-alone basis.
6. We believe that BAA's ownership of the three major London airports has had a significant impact on the national airport strategy and especially that for the South East of England where airport capacity is most constrained. The Government's Future of Air Transport White Paper of December 2003 recommended two additional runways in the South East and all the options for development are at airports owned by BAA. This lack of competition for the delivery of much-needed additional airport capacity has resulted in a perception that BAA were focussing their corporate effort on one option (Stansted) at the expense of the Heathrow option which has great economic value and robust industry support. The BAA's focus has recently become a little more balanced. However, the

common ownership of the two airports at which concurrent major developments are due to take place during the next ten years leaves airlines concerned that BAA will not be able to resist planning the work to meet corporate rather than market priorities.

7. BATA fully accepts that the planning system influences and constrains the development of airports. However, we believe that BAA have displayed a certain corporate arrogance on matters of strategic airport planning which would not have been possible if the major South East airports had been separately owned and that this has contributed to a slower development of additional capacity than the air travel market has required.
8. Heathrow and Gatwick are BAA's main airports in the UK and both have been operating close to their capacity limits for a number of years. For airlines, these airports are their main UK base and they depend on the airport company for many of the fundamental aspects of service required by their customers. We do understand the operational difficulties of a full or nearly-full airport but airlines have not always found the response by Heathrow and Gatwick satisfactory. General levels of customer service at both airports are often weak and both have problems with the resilience of their systems. Their slow response to the sudden change of security requirements in August 2006 has been particularly frustrating for the airlines and their customers.
9. We consider that there is a strong competition case for BAA to divest some of its airports. In the South East of England, we feel it would be beneficial to the air travel market if Gatwick, Heathrow and Stansted were owned independently. We believe that this would remedy the current lack of competition to develop additional capacity and would ensure some competitive pressure on the airports to deliver a better level of service. However, this would not remove the need for economic regulation at these airports.

10. Continued Economic Regulation

Our members feel strongly that each of BAA's major airports in the South East is a monopoly in its own right and should be the subject of robust economic regulation, irrespective of its ownership.

11. Heathrow and Gatwick are full and even Stansted, with the longer term potential for increased capacity, is currently operating close to capacity at peak times. The airlines' ability to move to another airport elsewhere in the South East is therefore very limited purely on grounds of capacity. Also, it must be recognised that most of the larger airports serve a number of different air travel markets, that each market at an airport needs to be large enough to sustain air services and that airlines have made different levels of investment in people and infrastructure at an airport depending on the market being served. The ability of airlines to move services to another airport is not simply determined by the market concerned but

also its ability to transfer services subject to capacity and infrastructure constraints and sunk investments.

12. A test of “substantial market power” should be applied to each air market served by the airport - scheduled or charter, long or short-haul, passenger or freight – before a reduction in economic regulation is considered.
13. We have serious concerns over the ability of Competition Law to provide an adequate alternative to price regulation. The risk that airlines face when an airport has a substantial level of market power is that of excessive pricing. We know of no example of a case of excessive pricing being taken through the Competition Law process successfully.

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