<u>SUBMISSION TO THE COMPETITION COMMISSION CONCERNING ITS MARKET INVESTIGATION OF THE SUPPLY OF AIRPORT SERVICES BY BAA</u>

Date: 4 May 2007
To: The Competition Commission
From: Two companies active in the provision of car rental services [confidential]

Introduction

In response to the Competition Commission's invitation of comments/submissions by interested parties in the context of its investigation of the supply of airport services by BAA within the United Kingdom, the companies [confidential] hereby make the following joint submission on the basis of their experience in dealing with BAA in UK airports owned by them.

The submission aims at bringing to the attention of the Competition Commission a specific problem that some operators of short-term car rental services (car rental operators, "CROs") face in BAA-operated airports at the UK and that threatens to restrict severely the CROs' capability to compete against each other in BAA-owned airports. This has to do with BAA's plans and – in some cases – current practice to consolidate many of the differentiated services offered by the CROs to their clients, by imposing upon consolidated facilities and services within its airports, thus leading to the commoditisation of the car rental services offered within BAA airports. These practices would limit the CROs' commercial freedom to compete with one another on the basis of quality, and thus to serve consumer interests and needs. They have the practical effect of reducing the ability of the CROs to differentiate their services.

The CROs and their captive status in the airports

the companies [confidential] are multi-national short-term car rental companies with a presence in most large, medium and small airports in the United Kingdom. These companies provide car rental services to customers on an international basis. Most of their customers are in the habit of booking a rental car for pick-up at an airport, often in another country, a few days before it is required. These customers generally want to pick up their rented car at the airport where they land. They have come to expect this standard of immediate service and airport presence, and customers of this type form a substantial portion of the CROs' customer base.

We note that the OFT's Terms of Reference to the Competition Commission include car rental in the definition of "associated commercial services" offered by BAA airports. Thus car rental services fall within the scope of this investigation; a differentiating factor is, however, that car rental services are directly linked to the main use of the airport by passengers. In that sense, their services are unique and distinguish CROs from any other consumer-oriented shops or service providers.

Airport-based ground services to CROs are among the core services offered by airports to economic operators other than airlines. CROs are dependent on a number of facilities for their presence in the airports. Apart from the visible front rental desks which are usually situated in airport lobbies, airports rent a number of other facilities to CROs. They include office space, car parks, back-up areas, facilities for refuelling and washing, as well as bussing services at some airports.

All these services are indispensable to the CROs' presence in the airport. The CROs have no choice but to be located at each airport in order to meet their customers' needs. Neighbouring airports are usually some distance away and cannot be considered to be part of the same geographical market, because customers arriving at one airport do not and cannot be expected to travel a significant distance to another airport to take advantage of car rental services. Then, from the point of view of the CROs' customers, it is usually not acceptable for the CROs to have their rental facilities located outside the airport's boundaries. For the same reason, CROs cannot serve their customers by relying on already existing facilities and customer points located away from the airports, for example in nearby cities. Renting a car in an airport is attractive and beneficial for customers precisely because it offers them the convenience of taking possession of and returning that car to the airport where they land and from which they depart. CROs therefore have no alternative but to use the facilities of airports; anything else is simply not acceptable from a customer point of view.

Each airport is in a dominant position in the local geographic market for the provision of airport-based services to CROs. It is in fact a monopolist, in the market for the provision of services connected with access by short-term CROs to the installations in that particular airport. These services are basically the use of office space and car rental desks, parking, valeting, car-wash and fuelling facilities, and other related services. They are supplied by the airport, which charges a fee for them. The CROs also note BAA's predominance as the owner of most major UK airports. As the OFT's Report of December 2006 states, BAA owns airports through which over 60% of UK air passengers travelled in 2005.

BAA's Consolidation Plans and Practices

The CROs currently compete both on price and also on non-price elements, such as individualised valeting and premium services. The particular individualised facilities offered by airports to the CROs (see above) make up some of the most important elements of the quality competition between the CROs. The capacity of each CRO to distinguish itself from its competitors is as crucial as a restaurant's ability to procure its own raw materials and present the food as it chooses.

In this regard, the companies [confidential] wish to express their unease regarding BAA's plans and practices to reorganise the conditions under which the CROs operate, by removing a number of the additional services from the CROs and possibly contracting them out to a third party who will then run a common consolidated facility. the companies [confidential] fear that, taken as a whole, such schemes will eliminate most non-price-based competition between them and turn car rental into a commodity. Any reduction/elimination of competition on quality will lead to lower quality standards, and in the long run will have a negative impact on consumer welfare, as CROs will have little or no incentive to innovate and propose new products to their clients because they will be unable to distinguish themselves from their competitors.

The BAA's consolidation of the on-site car rental-related services curtails product differentiation to the prejudice of consumers. Moreover, since BAA has up until now offered individualised services as opposed to consolidated services, the discontinuance of supply of the individualised services can be regarded as a disruption of or refusal to supply. Indeed, the BAA plans to consolidate a great deal of the now individualised facilities used by the CROs means that the associated services offered by the airport to the CROs will be discontinued and replaced with a different kind of services that will concern a consolidated facility. The new services are unwanted by the CROs, which have no other option but to take them as imposed by BAA.

the companies [confidential] stress that the non-consolidated facilities and services are indispensable to them competing also on a quality basis. There is no other alternative in order to attain the existing degree of non-price competition. The discontinuation by the UK airports of the individualised services offered to CROs has as consequence the elimination of a substantial part of non-price (i.e. quality) competition among the car rental operators with negative consequences for the consumers. Product differentiation will, thus, deteriorate. It will now be limited to price and to some very minor elements, such as the quality of the rental desk personnel of the rental desk itself. A whole chain of qualitative elements of product differentiation, such as individualised valeting, bussing, car-wash and refuelling, including the time parameters of these elements, will be lost. To revert to the restaurant analogy, competition between restaurants could be eliminated if they offered identical seating areas and had to buy their food stuff from a monopoly supplier.

Conclusion

The above analysis of the position of CROs vis-à-vis BAA shows the captive market status of CROs, and how the actual or possible behaviour of BAA harms or may harm competition. the companies [confidential] urge the Competition Commission to draw the appropriate conclusions therefrom.

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