

5 The market for air services

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Introduction

5.1. This chapter examines the market for air services. It examines the air services market generally and looks in more detail at services to and from south-east England, especially the London airports. This is followed by an examination of the nature of competition in the air services industry. This includes competition to meet the needs of different types of passengers, competition between airlines operating hubs as well as other factors affecting competition between airlines. The market in which CityFlyer mainly operates is described separately from the wider market in which BA operates. There is then an examination of competition on the routes on which BA and CityFlyer compete, followed by consideration of the conditions of competition in BA’s wider markets. Finally, there is a description of the use and availability of slots at Heathrow and, in particular, at Gatwick.¹

Nature of air services

Definition

5.2. The air services industry is diverse and complex and can be analysed from a variety of angles. Principally, there are two types of passenger air services, scheduled and charter, and two types of passenger, business and leisure. Table 5.1 shows the split of passengers between scheduled and charter, business and leisure at London airports. Scheduled passengers are by far the largest category at 86 per cent of total passengers.

¹The figures in the tables presented in this chapter may not sum exactly because of rounding.

TABLE 5.1 Numbers and proportion of passengers travelling for leisure and business on scheduled and charter flights from London airports, 1996

	Scheduled passengers				Charter passengers				Total '000
	Business		Leisure		Business		Leisure		
	'000	%	'000	%	'000	%	'000	%	
Heathrow	21,952	40	33,530	60	1	NS	9	NS	55,492
Gatwick	3,946	28	10,307	72	216	2	9,511	98	23,980
Stansted	1,275	35	2,321	65	24	2	1,058	98	4,678
Luton	322	27	877	73	14	1	1,111	99	2,325
City	445	62	276	38	-	NS	-	NS	722
Total London	27,941	37	47,311	63	255	2	11,689	98	87,197

Source: CAA Survey, 1996.

Notes: NS = not significant.
- = rounded to zero.

Scheduled air services

5.3. A scheduled air service is a service advertised by an airline in a published schedule, with tickets sold either directly to the public by the airline itself or by its appointed agents, such as travel agencies.

Demand for scheduled air services

5.4. The demand for scheduled air services can be further split into two types of journey: point-to-point or connecting. Table 5.2 shows the proportion of point-to-point and connecting passengers split into business and leisure categories by London airport. The table shows that leisure point-to-point travellers are the largest single category of passenger, and that connecting passengers are of more significance at Heathrow or Gatwick than at the other three airports.

TABLE 5.2 Proportion of point-to-point passengers and connecting passengers in each of London's airports, 1996

	<i>per cent</i>			
	<i>Point-to-point</i>		<i>Connecting</i>	
	<i>Business</i>	<i>Leisure</i>	<i>Business</i>	<i>Leisure</i>
Heathrow	28	38	11	22
Gatwick	19	50	9	23
Stansted	34	61	1	4
Luton	26	71	1	3
City	61	38	1	0
Total London	27	42	10	21

Source: CAA Survey, 1996.

Point-to-point and connecting travellers

5.5. Point-to-point travellers will typically be arriving or leaving the airport either from or to their home, place of business or holiday/business destination. Depending on the relative value they attach to convenience or cost, the point-to-point travellers' demand can be categorized as:

- (a) a specific demand for a flight from one specific airport to another airport—'an airport pair'; or
- (b) a wish to travel from one or other airport within a reasonable distance of their starting point to one or other airport within a reasonable distance of their destination—'a city pair'.

5.6. Connecting passengers, on the other hand, arrive at an airport by air expecting to travel on by air to their final destination. If there is no choice, these passengers may be prepared to transfer between airports for the purpose of making a connection. It is also possible that they would make such a transfer if the savings were sufficient and they were not particularly time-sensitive (see paragraph 5.83). But, given a choice, most passengers will want to fly into the airport from which their connecting flight will leave and to that extent their demand is airport-specific.

5.7. Connecting passengers, using London airports, can be divided into two groups: those making a connection in London, and those starting or ending their journey in London and making a connection elsewhere. According to the CAA 1996 Origin and Destination Survey (the latest available for all London airports), some 76 per cent of connecting passengers made a connection in London, while 24 per cent connected at the other end of their journey. In terms of all passengers using London airports for all purposes, the proportions were 31 per cent and 10 per cent respectively.

5.8. Generally, the demand of passengers making a connection in London is likely to be for flights to or from specific airports of origin/destination. In many cases, they will have some choice as to whether to connect via a London airport or another airport, for example Schiphol in Amsterdam. Of those passengers connecting at the other end of a journey to/from London, some will have a choice of London airports to use. To that extent, the demand from these passengers is arguably similar to that from point-to-point passengers, except that they are more sensitive to the airport of destination. Given that they are a minority of connecting passengers we do not, for the sake of simplicity, deal with these passengers separately in our analysis and they are included in the aggregate data for connecting passengers.

5.9. In general, the airport at which the connection is made is likely to be of less significance to passengers than the duration, cost and comfort of the overall journey. Passengers may thus be prepared to travel via quite different connecting points. Passengers starting their journey at a UK regional airport, or in Continental Europe, may be prepared to make their connection at other European airports, such as Amsterdam, Brussels, Paris or Frankfurt, rather than London. Alternatively, they may exercise the option of making the first leg long-haul and connecting closer to their destination, for example a long-haul leg to a US airport to make a connection to another US airport.

5.10. The development by major airlines of large networks of services connecting so-called hubs has meant that there is usually a choice of connecting hubs for those passengers that make connections. Competition exists between these hub networks for connecting passengers (see paragraphs 5.90 to 5.96 and 5.206 to 5.229).

5.11. Connecting flights can be provided by the same airline or network (intra-lining) or by different airlines (inter-lining). Evidence presented to the Commission by a number of parties indicated that travellers prefer to intra-line. BA said that this preference by passengers is very strong, and estimated that BA passengers, all other things being equal, are two and a half times more likely to choose an intra-line connection than an inter-line one (see paragraph 5.93).

5.12. British Midland agreed that passengers preferred intra-lining, but said that it is possible for independent airlines to go a long way to meet this demand with a 'seamless' intra-line-type service with code-share partners (that is, where two airlines both use their code on the same flight). It noted that it is possible to provide through tickets with one boarding card and through baggage check etc, provided that there is agreement between all the relevant parties.

5.13. It should be noted that, where there is a choice, the traveller's budget constraint will, in general, influence whether they travel point-to-point or connect, and where the connection is likely to be made. The more budget-conscious traveller may choose to make a connection when a direct flight is available or take a more complicated route if the price differential is sufficient.

Business and leisure travellers

5.14. Business and leisure travellers have a number of distinctive characteristics. A key distinction between them is their sensitivity to price. A number of studies have been conducted into the price

sensitivity of travellers.¹ In general they find that while leisure passengers generally have some sensitivity to price, business travellers tend to be price inelastic.

5.15. Business travellers have several priorities that can be more important than price. They are generally time and destination sensitive, require ticket flexibility for rescheduling, high flight frequency, and minimum flight times and connections. In the main, they strongly prefer to fly point-to-point where possible. If connections are essential they, like leisure passengers, often have a choice of where to make the connection, and their choice is a factor in hub competition.

5.16. There are, however, signs that some business travellers are becoming more budget conscious and are using low-cost no-frills services on shorter routes. For example, there is survey evidence, from the 1997 International Passenger Survey (IPS) conducted by the Office for National Statistics (ONS), that on the no-frills easyJet route from Luton to Nice 17 per cent of passengers were business passengers and on the Amsterdam route the proportion was 28 per cent. A small Travel in Business survey reported that more than a quarter of the European business travellers surveyed had flown on a low-cost airline within the previous 12 months. BA drew our attention to a Consumers' Association survey that found that 81 per cent of business passengers who had flown a low-cost no-frills carrier would do so again,² and said that information from Airtrack showed that 39 per cent of UK business passengers believed themselves 'quite likely' or 'extremely likely' to use low-cost no-frills airlines on business.

5.17. Leisure travellers, in contrast to business travellers, tend to give higher priority to price but are less time or destination sensitive. Some have a clear destination, such as those visiting friends and relatives. At the other end of the spectrum, a minority may just be looking for a sunny destination and may be indifferent between several different destinations and routes. The final choice may be substantially influenced by price. In between is a large category of passengers who are flexible as to precisely which airports they use to start or end the part of their journey involving air travel.

Supply of scheduled air services

5.18. Scheduled air services are provided to either short-haul or long-haul destinations. From London, short-haul destinations are usually defined as flights to UK points, Ireland, Continental Europe including Eastern Europe, and North Africa. Long-haul flights are usually intercontinental.

5.19. The supply of scheduled air services can be characterized by:

- (a) type of airports used—these may be at the hub or spoke of an airline network, or a primary or secondary city airport;
- (b) time of the day or night—peak long-haul arrival and departure times are different from short-haul ones; business travellers and holidaymakers are prepared to depart and arrive at different times; and
- (c) type of carrier—this includes large international carriers which offer large networks, commuter carriers, full service and low-cost no-frills carriers.

5.20. Airlines differ in size and type of services they offer. Large international airlines offer a wide range of full cabin service scheduled flights mainly from primary city airports with many connecting opportunities. Smaller airlines may specialize in short-haul routes, providing feeder traffic to other airlines, or operating point-to-point services, or a combination of both. These airlines may further specialize by offering point-to-point services from secondary city airports with basic service standards and lower freely available fares, so-called low-cost no-frills service providers.

¹Studies typically find that the price elasticity of demand of leisure travellers is greater than one, whereas business passengers are price inelastic. A recent OECD study (*OECD: Carbon charges on aviation fuels*, expert group on the UNFCCC, Working Paper 12, Paris) reports price elasticities for vacation travel in the range of -1.1 to -2.7, whereas for business travel it ranges between -0.4 and -1.2. Similar results are reported in research by Oum, Waters and Young (*Journal of Transport Economics and Policy*, 1992).

²Unpublished Consumers' Association Survey.

5.21. The extent of connecting services offered by a carrier will differ according to the size of the carrier's network and links with other airlines. Larger international airlines tend to offer a network of routes and interconnections, often through a hub at the centre of their routes. Some airlines have more than one hub.

5.22. The operational needs of the service providers also differ. For example, a short-haul operator requires much higher frequency of departures and arrivals (often three or more rotations a day) than does a long-haul operator, which typically requires only one daily arrival and departure. The timing needs of each provider will, therefore, generally be different.

5.23. In addition to aircraft and crew, a number of items are required to provide a scheduled air service including arrival and departure slots; ground handling facilities; check-in desks; and a published timetable. To some extent this 'hardware' can be switched between different routes provided the operator is authorized to operate the route concerned. An operator may choose to undertake a switch in order to take advantage of a new market opportunity, or to protect its competitive position. However, such changes can be constrained by operational factors such as obtaining slots at the new destination, planning and marketing etc, and it may not be possible to execute such a change quickly.

5.24. In general, airlines tailor their services and fares to try to capture the different types of passenger. Some airlines offer higher-quality cabin service at a higher fare, with business passengers in mind. More flexible tickets are available at higher prices while cheaper fares include restrictions, such as staying over on a Saturday or Sunday or an inability to change booked flights.

5.25. Airlines have sophisticated yield management models to determine how many tickets to sell at the different fare levels in order to maximize the total revenue from a service. This depends on selling as many tickets as possible at higher fares and, at the same time, flying with as full a load as possible. The marginal cost of an additional passenger on a flight with empty seats is very low and profit is critically dependent on the balance between fares paid and the proportion of filled seats.

Charter air services

5.26. Most charter air services, in contrast to scheduled ones, tend to operate as demand requires rather than on the basis of a set of published schedules. Tickets for charter flights are generally sold through intermediaries such as tour operators, and some tour operators also sell 'seat-only' tickets on charter services.

5.27. Demand for charter services comes from both the leisure and business traveller, as illustrated in Table 5.1. However, leisure travellers are the mainstays of charter operators. Tour operators usually generate the demand for charter flights by leisure passengers by the marketing of package holidays. Charter passengers may have less choice of the location of the airport or timing of flights than a scheduled passenger.

5.28. To be economic, many short-haul charter services from the UK normally require up to three or more rotations of the aircraft daily, for example those providing services to the Mediterranean. Accordingly, flights tend to be more evenly spread throughout the day and night than scheduled services.

5.29. Charter operations from the UK are seasonal, with peak demand between May and October.

Methods of ticket sale

5.30. Air services can be sold in a number of different ways:

- (a) through travel agents who may or may not have direct access to the CRSs established by the airlines; or

(b) through direct selling at airports, through call centres and the Internet, a method favoured by low-cost no-frills service providers and increasingly utilized by full service airlines.

5.31. A CRS provides centralized listings of flight options and a reservation system. They are often owned by a group of airlines. (See paragraphs 5.123 and 5.124.)

5.32. Direct selling through call centres and the Internet avoids the problem of becoming dependent on CRS listings. It cuts out the cost of participating in the CRS and travel agents' commissions, but requires a different marketing approach.

Measurement issues

5.33. The following are the main forms of measurement used throughout this chapter:

- (a) passenger numbers are used as a broad indicator of the level of business attracted by airlines and airports;
- (b) revenue passenger kilometres (RPKs), defined as the number of paying passengers multiplied by the kilometres travelled, is used to measure output;
- (c) seat load factors are used to measure the proportion of passenger capacity used;
- (d) ATMs and passenger numbers are used to measure airport usage; and
- (e) yield, defined as total revenue from a route divided by the number of paying passengers.

5.34. Overall, the airline business is seasonal, with peak demand times in summer (although this is not the case for every route, for example to ski destinations). IATA defines the northern hemisphere summer season as the weeks between the last Sunday in March and the last Saturday in October (that is, British Summer Time). The season is usually 30 weeks long, but is sometimes 31 (see note 1 to Table 5.39). The charter summer season is somewhat shorter, between May and October. Peak week statistics are usually taken for week 20 in the season—usually the second or third week in August.

Structure of the air services industry

Global structure

5.35. The output of the world airline industry can be seen in Table 5.3. North America accounts for the largest proportion of output, followed by the Asia-Pacific region and Europe.

TABLE 5.3 The world industry's scheduled output, 1995*

Output in million RPKs by airlines based in:	Domestic		International		Total	
	m	%	m	%	m	%
Europe	122,522	12	426,749	34	549,271	25
Africa	8,938	1	42,059	3	50,997	2
Middle East	9,904	1	57,051	5	66,955	3
Asia-Pacific	176,790	18	372,901	30	549,691	25
North America	631,041	64	271,636	22	902,677	41
Latin America and Caribbean	37,563	4	70,381	6	107,944	5
Total	986,758		1,240,777		2,227,535	

Source: International Civil Aviation Association (ICAO) Civil Aviation Statistics of the World.

*These are the latest available statistics on a comparable basis.

5.36. The international scheduled airline industry is dominated by large national flag carriers such as BA, Lufthansa and KLM; and the major US airlines. As can be seen in Table 5.4, BA is the largest

carrier in the industry in terms of passengers carried on international scheduled services. However, when taking account of system-wide passengers (that is, total passengers both domestic and international), a number of US airlines, together with Lufthansa and All Nippon Airways, are larger, in some cases significantly so. The dominance of US carriers in this category illustrates the high traffic volumes in the US domestic market.

TABLE 5.4 Leading international airlines by international scheduled service and system-wide service, 1997

Ranking 1997	Airline (ranking 1996)	Passengers carried '000	Annual change %	Ranking 1997	Airline (ranking 1996)	RPKs m	Annual change %
<i>International scheduled service</i>							
1	British Airways (1)	27,808	4	1	British Airways (1)	102,204	8
2	Lufthansa (2)	22,580	12	2	United Airlines (2)	76,249	5
3	American Airlines (3)	16,910	1	3	Lufthansa (4)	66,381	14
4	Air France (4)	16,802	8	4	Japan Airlines (3)	62,030	3
5	KLM (5)	14,369	12	5	Air France (5)	60,751	7
6	United Airlines (7)	12,239	4	6	American Airlines (6)	55,892	2
7	Singapore Airlines (6)	12,149	3	7	KLM (9)	55,388	13
8	SAS (9)	12,017	9	8	Singapore Airlines (7)	55,096	2
9	Japan Airlines (8)	11,328	1	9	Northwest Airlines (8)	52,883	5
10	Alitalia (11)	10,815	1	10	Qantas (10)	44,137	6
<i>System-wide scheduled services</i>							
1	Delta Airlines (1)	103,231	6	1	United Airlines (1)	195,292	4
2	United Airlines (2)	84,203	3	2	American Airlines (2)	172,131	2
3	American Airlines (3)	81,083	2	3	Delta Airlines (3)	160,327	6
4	US Airways (4)	58,659	4	4	Northwest Airlines (4)	115,920	5
5	Northwest Airlines (5)	54,650	4	5	British Airways (5)	106,701	6
6	All Nippon Airways (6)	40,697	3	6	Japan Airlines (6)	79,063	4
7	Continental (7)	38,610	8	7	Lufthansa (7)	71,363	13
8	Lufthansa (9)	35,293	7	8	Continental (9)	69,918	16
9	British Airways (8)	34,184	3	9	Air France (10)	67,918	18
10	Japan Airlines (10)	31,772	6	10	US Airways (8)	66,913	7

Source: IATA World Air Transport Statistics, June 1998.

Europe and the UK

5.37. Table 5.5 provides some key statistics on European airlines. As can be seen, the main players are national flag carriers. BA was responsible for more RPKs and has higher operating revenue than the other airlines in the table. However, in 1997, Lufthansa carried some 3 per cent more passengers than BA.

TABLE 5.5 European scheduled airlines' output by RPKs, passengers and operating revenue—top 14, 1997

Airline	Total RPKs m	Total passengers '000	Operating revenue US\$m
British Airways	105,701	34,184	14,184
Lufthansa	71,363	35,294	13,354
Air France	69,987	32,698	10,185
KLM	55,388	14,446	6,688
Alitalia	35,992	24,552	5,085
Iberia	27,634	15,426	3,562
Swissair	25,253	10,695	7,356
SAS	20,331	20,607	5,097
Turkish	12,379	9,381	1,347
Sabena	11,274	6,872	2,012
Finnair	9,629	6,092	1,445
Olympic	9,261	7,061	1,012
Aer Lingus	5,893	5,011	1,046
British Midland	2,976	5,683	871
Total	463,060	228,000	73,243

Source: Statistical Appendices to Yearbook, 1998, Association of European Airlines (AEA) for passengers and RPKs; Airline Business, September 1998, for operating revenue.

5.38. Table 5.6 shows the geographical split of the services provided by BA and three other European airlines with large hub operations, in terms of the number of passengers carried. BA carries considerably fewer domestic passengers than Air France or Lufthansa, but it does carry more passengers in all other categories, especially on North Atlantic routes.

TABLE 5.6 EU airlines' passenger carryings by geographical area, 1997

	'000			
	BA	Lufthansa	Air France	KLM
Domestic	6,377	12,398	14,111	-
European	15,810	15,480	10,629	7,704
North Atlantic	6,162	3,308	2,205	2,671
Other medium/long-haul	<u>5,836</u>	<u>4,107</u>	<u>5,754</u>	<u>4,071</u>
	34,185	35,293	32,699	14,446

Source: AEA Yearbook 1998.

5.39. Table 5.7 shows the number of EU airlines operating intra-EU scheduled services, listed by the airline's country of origin. In the EU, the UK has the highest number of airlines providing intra-EU scheduled services, followed by Germany and France respectively.

TABLE 5.7 EU airlines operating intra-EU scheduled services, December 1997

Country of origin	Carriers
UK	27
Germany	21
France	14
Italy	13
Sweden	11
Spain	11
Denmark	8
Netherlands	7
Austria	5
Portugal	4
Irish Republic	4
Belgium	4
Finland	3
Luxembourg	1
Greece	1
Total	134

Source: CAP 685, CAA, 1998, *The Single European Aviation Market: The First Five Years*.

UK operators

5.40. In 1997, some 46 airlines were UK based. They carried a total of nearly 85 million passengers: approximately 40 million on scheduled international services, 16 million on scheduled domestic services and 28 million on charters.

5.41. Table 5.8 shows the top 14 UK carriers by passengers carried. BA is the largest operator carrying nearly five times as many passengers as its nearest UK rival, Britannia, a charter airline.

TABLE 5.8 Main UK carriers by RPKs and passengers, 1997

Airline	'000	
	Total RPKs	Total passengers
British Airways	105,945	33,729
Britannia*	21,295	7,629
Virgin Atlantic	19,158	2,792
Airtours*	15,087	5,103
Monarch Airlines*	12,368	4,533
Air 2000*	11,206	4,897
Caledonian*	7,410	2,255
British Midland	4,253	5,801
Leisure International*	4,155	1,218
Flying Colours*	2,620	1,098
Air UK†	2,157	4,173
Jersey European	736	1,707
British Regional	624	1,552
CityFlyer	476	1,134
Subtotal	207,490	77,621
Proportion (%)	<u>96</u>	<u>92</u>
Total passengers	216,674	84,739

Source: CAA Airline Statistics, 1997.

*Charter airlines.

†Now KLM uk.

Note: RPK data include sub-charter operations performed for other airlines.

5.42. The scheduled sector of the UK industry comprises one large airline (BA) and a number of smaller airlines. BA accounts for some 60 per cent of scheduled passengers carried by UK airlines, with its nearest scheduled UK competitor, British Midland, accounting for only 10 per cent of scheduled passengers carried by UK airlines. BA's share of passengers increases to 61 per cent if its UK subsidiary, Brymon, is included, and to 68 per cent if Brymon and all its UK franchisees—CityFlyer, British Regional, GB Airways, Maersk, British Mediterranean and Loganair—are taken into account. CityFlyer accounts for 2 per cent of scheduled passengers carried on UK airlines.

5.43. The passengers carried by charter airlines are more evenly spread across charter operators, with the sector's largest participant, Britannia, accounting for 27 per cent of charter passengers carried by UK airlines.

UK airports

5.44. Table 5.9 summarizes activity at UK airports in 1998. In 1998, 160 million passengers (terminal and transit passengers—see glossary for definition) travelled through UK airports. Of these, 77 per cent travelled on scheduled services and 23 per cent on charter services. Heathrow is the largest UK airport accounting for 30 per cent of UK scheduled ATMs, and nearly 50 per cent of UK scheduled passengers. Gatwick follows with 13 per cent of scheduled ATMs at UK airports and 15 per cent of scheduled passengers. There was some 8 per cent growth in the numbers of both scheduled and charter passengers (transit and terminal) between 1997 and 1998, the totals for all UK airports in 1997 being 114.1 million scheduled passengers and 34.2 million charter passengers.

TABLE 5.9 Summary of activity at UK airports,* 1998

	ATMs		Passengers (terminal and transit)	
	Scheduled '000	Charter '000	Scheduled '000	Charter '000
Heathrow	440	3	60,560	123
Gatwick	186	56	18,173	11,000
Stansted	84	20	5,319	1,544
City	37	1	1,357	3
Luton	<u>33</u>	<u>15</u>	<u>2,738</u>	<u>1,395</u>
Total London airports	780	95	88,147	14,066
Other UK airports*	705	290	35,017	23,018
of which: Manchester	117	46	7,850	9,501
Birmingham	74	14	4,175	2,535
Edinburgh	65	11	4,299	289
Glasgow	72	14	4,376	2,191
Total UK airports*	<u>1,485</u>	<u>385</u>	<u>123,164</u>	<u>37,085</u>

Source: CAA, provisional Airport Statistics.

*Excludes Channel Island airports.

5.45. While Heathrow and Gatwick are clearly the largest UK airports for scheduled services, the other London airports, of which Stansted is the largest, are growing considerably faster. Table 5.10 shows scheduled passengers at the London airports between 1990 and 1998. It can be seen that while the number of passengers is growing at all airports, the rate of growth at Heathrow is well below the increases at the other airports.

TABLE 5.10 Scheduled passengers* at London airports, 1990 to 1998

	'000									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	
Heathrow	42,886	40,379	45,015	47,716	51,554	54,333	55,942	58,085	60,560	
Gatwick	12,350	10,420	10,966	10,967	11,149	12,281	14,321	16,332	18,173	
Stansted	389	1,013	1,621	1,881	2,286	2,945	3,644	4,026	5,319	
Luton	957	540	445	478	485	556	1,204	2,006	2,738	
City	228	167	183	243	478	551	723	1,157	1,357	
							<i>Annual change, per cent</i>			
Heathrow		-6	11	6	8	5	3	4	4	
Gatwick		-16	5	0	2	10	17	14	11	
Stansted		160	60	16	22	29	24	11	32	
Luton		-44	-18	8	1	15	117	67	36	
City		-27	10	33	97	15	31	60	17	

Source: CAA Airport Statistics.

*Passengers are terminal and transit passengers (see glossary for definition).

5.46. Stansted's importance as a London airport is growing, with the number of passengers, flights and routes served from that airport all increasing. Table 5.11 shows the number of routes and flights operated at Stansted between 1988 and 1998. Virgin Atlantic indicated, in a submission to the DETR concerning the regulation of night movements, that it believes there may be an increase in arrivals at Stansted from the east coast of the USA and Canada over the next few years.

TABLE 5.11 Scheduled flights and routes at Stansted, summer 1988 to 1998

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total flights	7,122	7,258	7,422	17,259	19,353	21,723	25,557	30,338	36,730	39,552	51,023
Total routes	10	12	11	22	32	32	40	39	40	32	49
<i>Annual change, per cent</i>											
Total flights		2	2	133	12	12	18	19	21	8	29
Total routes		20	-8	100	45	0	25	-3	3	-20	53

Source: CAA.

Note: For the purposes of this table, a route is defined as a destination served at least once weekly on average during the summer. Flights to destinations served less frequently have been excluded.

Airports in south-east England

5.47. The terms of reference for this inquiry refer to scheduled air services to and from south-east England. South-east England is defined as the area comprised by Greater London and the counties of Kent, East Sussex, Surrey, West Sussex, Berkshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex. Greater London means the area comprised by the 32 London boroughs and the City of London. The airports in south-east England comprise the London airports of Heathrow, Gatwick, Stansted, Luton and City, together with a number of very much smaller airports such as Southend, Biggin Hill and Lydd. Table 5.12 shows the number of scheduled passengers carried on flights to and from south-east England.

TABLE 5.12 Scheduled passengers at south-east England airports, 1998

	Total '000	BA '000	CityFlyer '000	BA and CityFlyer '000	BA and CityFlyer's share %
Heathrow	60,237	26,246	-	26,246	44
Gatwick	18,126	8,590	1,415	10,005	55
Stansted	5,307	NS	-	-	NS
Luton	2,734	-	-	-	-
City	1,357	-	-	-	-
Total London	87,761	34,837	1,415	36,251	41
Other south-east airports	3	-	-	-	-
Total south-east airports	87,764	34,837	1,415	36,251	41

Source: CAA Airport Statistics, 1998.

Notes:

1. NS = not significant.
2. BA does not include subsidiaries.
3. Data for terminal passengers only.

5.48. It can be seen that the London airports account for nearly all the scheduled passengers using south-east England airports. BA and CityFlyer only operate services in the South-East from these airports. BA's share of passengers for all south-east airports is 40 per cent, and this would increase to 41 per cent if it were to acquire CityFlyer. However, these figures exclude shares held by BA's subsidiaries.

5.49. CityFlyer put it to us that this misrepresented the true combined share of these services attributed to BA and CityFlyer because it included connecting passengers who were travelling through south-east England rather than to or from it. It estimated that, taking account only of passengers travelling point-to-point to and from south-east England, BA's share of relevant services would increase to 33 per cent, rather than 41 per cent, of the relevant services as a result of the merger.

However, our terms of reference and our analysis relate to shares of services to and from south-east England, and to all the passengers carried by those services, rather than to passengers travelling to and from south-east England.

London airports

5.50. Table 5.13 provides a breakdown of the share of scheduled flights to and from London airports by BA, CityFlyer and other airlines. This table is based on CAA data for flights to and from London airports in summer 1998. Based on this information, it can be seen that BA and its subsidiaries accounted for 32 per cent of all scheduled flights to and from the London area. When CityFlyer's flights are added, the share goes up to 36 per cent.

TABLE 5.13 Scheduled flights to and from London airports, summer 1998

	<i>BA*</i>	<i>CityFlyer</i>	<i>Other airlines</i>	<i>Total</i>	<i>Airport share %</i>
Heathrow	100,965	-	159,414	260,379	56
Gatwick	46,051	18,756	47,299	112,106	24
Stansted	2,842	-	48,543	51,385	11
Luton	6	-	19,673	19,679	4
City	0	-	21,534	21,534	5
Total London	149,864	18,756	296,463	465,083	100

Source: CAA Airport Statistics.

*BA includes Deutsche BA, Air Libert , Brymon and Go.

5.51. It can be seen from the table that Gatwick and Heathrow account for the largest share of scheduled flights with 80 per cent of all scheduled flights between them.

Competition between London airport

5.52. The extent to which services from the different London airports are in competition depends on a number of factors relating to the passenger and the journey being undertaken. These factors include: the price; the type of journey, whether direct or connecting; the origin and destination of the traveller; the type of passenger, whether travelling for business or leisure; the type of flight, whether long-haul or short-haul; and the frequency of services on the route.

5.53. For point-to-point travellers, the choice of airport and service can be influenced by the relative proximity of the airports (in terms of access by the preferred method of land transport) and perceptions about the ease of use of the airport and the services provided. This is reflected in the catchment areas for each airport.

Airport catchment areas

5.54. The catchment areas for short-haul routes tend to be narrower than those for long-haul routes where passengers are prepared to make longer surface journeys to an airport.

5.55. Table 5.14 shows the origin and destination of passengers starting or ending their journey at Heathrow and Gatwick on short-haul routes in 1996. It illustrates the different catchment areas for each airport. Whilst Heathrow and Gatwick both draw significant traffic from Greater London, their catchments outside this area differ. For example, a higher proportion of passengers travelling from Gatwick come to/from West Sussex and Kent than is the case for Heathrow. This pattern of geographical proximity also occurs in the London area with passengers from Croydon favouring Gatwick, but passengers in western boroughs showing a preference for Heathrow.

TABLE 5.14 Short-haul traffic on routes served from both Heathrow and Gatwick, 1996

	Heathrow		Gatwick		Total	
	Passengers	%	Passengers	%	Passengers	%
South-East:						
Greater London						
City of Westminster	2,513,840	15	473,713	11	2,987,553	14
Kensington & Chelsea	1,382,879	8	223,912	5	1,606,791	8
Camden	622,980	4	126,376	3	749,356	4
Hillingdon	458,251	3	21,249	1	479,500	2
Hammersmith	383,207	2	52,739	1	435,946	2
Hounslow	336,991	2	18,638	0	355,629	2
Richmond	332,923	2	43,803	1	376,726	2
Ealing	321,734	2	25,717	1	347,451	2
Wandsworth	290,479	2	75,624	2	366,103	2
City of London	280,276	2	44,866	1	325,142	2
Barnet	264,770	2	28,519	1	293,289	1
Brent	237,044	1	26,101	1	263,145	1
Croydon	101,214	1	109,403	3	210,617	1
Greater London unspecified	146,963	1	99,012	2	245,975	1
Bromley	86,989	1	64,849	2	151,838	1
Lambeth	169,041	1	56,272	1	225,313	1
Other	<u>1,740,954</u>	<u>10</u>	<u>422,772</u>	<u>10</u>	<u>2,163,726</u>	<u>10</u>
Greater London total	9,670,535	58	1,913,564	46	11,584,099	55
Surrey	972,111	6	299,201	7	1,271,313	6
Berkshire	888,216	5	82,760	2	970,976	5
Hampshire	559,657	3	131,930	3	691,587	3
Buckinghamshire	474,833	3	41,524	1	516,357	2
Hertfordshire	447,870	3	59,895	1	507,765	2
Oxfordshire	493,167	3	58,252	1	551,419	3
West Sussex	137,236	1	309,533	7	446,769	2
Kent	240,982	1	268,960	6	509,942	2
East Sussex	140,384	1	292,215	7	432,599	2
Essex	219,342	1	106,139	3	325,481	2
Other	<u>166,538</u>	<u>1</u>	<u>30,108</u>	<u>1</u>	<u>196,647</u>	<u>1</u>
Total South-East	14,410,871	86	3,594,082	86	18,004,954	86
South-West	973,486	6	194,113	5	1,167,599	6
West Midlands	325,611	2	72,721	2	398,332	2
East Anglia	295,039	2	100,236	2	395,274	2
East Midlands	289,688	2	56,370	1	346,058	2
Wales	208,310	1	58,381	1	266,691	1
Other	<u>296,592</u>	<u>2</u>	<u>88,932</u>	<u>2</u>	<u>385,524</u>	<u>2</u>
Total	16,799,598		4,164,836		20,964,434	

Source: CAA.

5.56. Analysis by the CAA indicated that between 35 and 45 per cent of passengers on short-haul routes using Heathrow and Gatwick could be regarded as 'indifferent' as between Gatwick and Heathrow (that is, as likely to use Heathrow as Gatwick), although the analysis was tentative given the difficulty in defining the level of indifference with any precision.

5.57. There is further evidence on the preference of passengers from the 1997 CAA survey on the origin or destination of international scheduled passengers using Heathrow and Gatwick by type of journey, whether for business or leisure.

5.58. Table 5.15 shows the proportion of total international scheduled business and leisure travellers using Gatwick and Heathrow who originate in, or are destined for, the top eight catchment areas for each airport. The Gatwick and Heathrow catchment areas are determined as those areas where the highest proportion of passengers of a particular type, that is, business or leisure, using the airport originate from or are destined for. For example, 23.5 per cent of business passengers using Heathrow start or finish their journey in Inner London.

TABLE 5.15 **Origin/destination of international scheduled passengers resident in the UK: business and leisure passengers, 1997—proportion of total throughput originating in/destined for each of the top eight catchment areas**

per cent

	<i>Business</i>		<i>Leisure</i>	
	<i>Gatwick</i>	<i>Heathrow</i>	<i>Gatwick</i>	<i>Heathrow</i>
<i>Gatwick catchment</i>				
Inner London	13.0	23.5	14.7	18.5
Croydon	4.7	0.5	1.7	0.9
East Sussex	4.8	0.7	4.0	1.6
Hampshire	5.2	5.6	5.1	3.5
Kent	7.5	2.2	4.9	2.6
Other Surrey	11.3	7.9	7.3	4.8
West Sussex	9.7	1.5	4.8	1.2
South-West	<u>4.4</u>	<u>6.9</u>	<u>8.0</u>	<u>8.6</u>
Group total	55.8	48.8	50.5	41.7
<i>Heathrow catchment</i>				
Inner London	13.0	23.5	14.7	18.5
Berkshire	3.3	7.7	2.4	4.3
Buckinghamshire	1.2	4.5	2.6	2.7
Hampshire	5.2	5.6	5.1	3.5
Hertfordshire	1.5	4.8	2.6	3.3
Other Surrey	11.3	7.9	7.3	4.8
South-West	4.4	6.9	8.0	8.6
West Midlands	<u>3.0</u>	<u>3.4</u>	<u>3.6</u>	<u>4.7</u>
Group total	42.9	64.3	46.3	50.4

Source: BA from CAA Survey data.

5.59. The table illustrates that there is a substantial overlap between the Heathrow and Gatwick catchment areas. Four of the areas that appear in the top eight Heathrow catchment areas also appear in the Gatwick list—Inner London, Hampshire, Other Surrey and South-West. In most of the other catchment areas for each airport there is also a significant proportion of passengers using the other airport.

5.60. The above data also suggest that whereas business travellers using Heathrow or Gatwick are drawn to a significant degree from their main catchment areas, both airports are rather less dependent on their main catchment areas for their scheduled leisure passengers.

5.61. This suggests that while there is a substantial overlap in the Heathrow and Gatwick catchment areas for both business and leisure passengers, the degree of substitution is lower for business passengers who are likely to put a higher premium on flying from a nearby airport.

5.62. Data for 1996 are the latest origin and destination data available for the London airports other than Gatwick and Heathrow. In view of the rate of growth in these airports since 1996 (see Table 5.10), the data are unlikely to provide a meaningful guide to the extent to which passengers regard them as substitutes for Heathrow and Gatwick. Views among the airlines differed. BA and CityFlyer considered that Stansted, Luton and City provided growing competition for services from Gatwick and Heathrow. This view was shared by certain other airlines including Ryanair. Ryanair made the comment that, in its view, the significant growth of low-cost operations at Stansted, which in turn had attracted flag-carrier operations by airlines such as Lufthansa, Scandinavian Airlines and Swissair to Stansted, gave credence to the view that passengers in the Greater London catchment area now regarded Stansted as London's third airport. Others, including Virgin Atlantic (see paragraph 7.70), suggested that at present it operated in a separate market.

Supply substitutability

5.63. Slots at an airport can be put to a number of different uses. For example, if a pair of slots is serving the Gatwick–Brussels route, there is nothing in principle to stop the operator from changing that route to Gatwick–Amsterdam provided matching slots can be found in Amsterdam. There is clearly a degree of substitutability between the use of slots at an airport.

5.64. A slot is not route specific, but the ability of an airline to establish new routes, and hence the extent of supply substitutability, can be limited by a number of factors, such as: the time required for planning a route change and to undertake appropriate marketing; the ability to obtain slots at the other end of the route; the ability to obtain appropriate aircraft and other hardware issues (see paragraph 5.23); and regulatory restrictions such as international bilateral agreements and other licence restrictions.

5.65. It could also be argued that flights from Gatwick could be substituted for flights from Heathrow. For example, BA has switched certain flights between Gatwick and Heathrow (see Table 5.24). This is further illustrated by the move of some scheduled flights from Gatwick to Heathrow in 1991 when the TDRs were abolished (see paragraph 4.34). There may also be a degree of supply side substitutability between Gatwick and Heathrow on the one hand and other London airports on the other. However, differences in operating costs, catchment areas and the absence of a significant range of connecting services are factors which may weigh against the substitutability of these airports from the supplier's perspective. There is as yet no evidence of significant switches of comparable services between the airports concerned.

5.66. BA and CityFlyer argued that market share on a route, be it an airport-pair route or a city-pair route, should not be gauged by the share of an airline's total passengers on the route but by its share of point-to-point passengers only. Their reason for supporting this approach is that the demand by point-to-point passengers is for air services between the origin and destination on the route whilst that of connecting passengers is for air services between their origin and final destination for the journey as a whole. For connecting passengers, the airport-pair route (or city-pair route) is but a part of the overall journey and there are usually other combinations of competing routes between their origin and final destination.

5.67. Whilst this is a realistic description of the demand for air services on a route, it is necessary also to take account of the supply side. An airline could not monopolize just the supply of, say, point-to-point travel on a route since another supplier of services to connecting passengers travelling on the route could attract passengers away from the carrier of point-to-point passengers. There is perfect supply substitutability between supplying air services on a route to a point-to-point passenger and to a connecting passenger. An airline can use a seat on a route for either type of passenger and there is no cost involved in shifting from supplying a point-to-point passenger to supplying a connecting passenger. This suggests that the market within which competition on the route occurs should be measured by the wider definition based on the share of total passengers of any supplier on the route.

The nature of competition between airlines

Types of passenger and journey

5.68. The evidence put before the Commission by the main parties, other airlines and industry authorities emphasized the multifaceted nature of competition in the provision of air services.

5.69. To reflect the different types of air traveller and purpose of journey, airline passengers can be split into four segments:

- (a) leisure travellers flying point-to-point;
- (b) business travellers flying point-to-point;
- (c) connecting leisure passengers; and
- (d) connecting business passengers.

5.70. Table 5.16 shows the size of these segments at Heathrow and Gatwick between 1991 and 1997.

TABLE 5.16 Heathrow and Gatwick scheduled passenger numbers, 1991, 1996, 1997 and percentage change

'000

	Heathrow				Gatwick			
	Point-to-point		Connecting		Point-to-point		Connecting	
	Business	Leisure	Business	Leisure	Business	Leisure	Business	Leisure
1991	13,643	15,779	4,532	6,139	2,151	6,276	638	1,268
1996	15,572	21,229	6,380	12,300	2,716	7,068	1,230	3,239
1997	15,796	22,019	6,449	13,264	3,081	7,524	1,556	4,083
	<i>Change, per cent</i>							
Annual change								
1991 to 1996	3	6	7	15	5	2	14	21
1991 to 1996	14	35	41	100	26	13	93	155
1996 to 1997	1	4	1	8	13	6	26	26

Source: CAA Survey.

Note: CAA Survey data are not available for London airports between 1992 and 1995.

Point-to-point route competition

Leisure point-to-point

5.71. Leisure travellers are likely to be price sensitive, but not so time or destination sensitive (see paragraph 5.14). They are also less likely to be concerned about flight frequency, departure and arrival times or ticket flexibility than business travellers. Therefore, when choosing a flight they are willing to consider a wide range of possibilities. Some may even be willing to consider a flight with two or more legs if it is cheaper than a direct one.

5.72. BA and CityFlyer argued that for these passengers the market comprised all south-east airports. Accordingly, they argued that there is competition for these passengers from the scheduled services of other airlines at all five London airports, as well as from charter seat-only tickets and, where applicable, from rail travel. They also considered that certain passengers would consider flights from airports outside the region, such as in the Midlands or Southampton, to be reasonable substitutes.

5.73. We consider that since point-to-point leisure passengers are apt to be price sensitive and less concerned about time, they are likely to consider travel to and from several airports within range of their origin/destination. The evidence on the overlap between the catchment areas of London airports, and the available transport to them, suggests that the majority of leisure passengers would view their choice for point-to-point travel as including all London airports. The development of London's secondary airports has offered this group of passengers a wide choice of short-haul routes at competitive prices, and leisure passengers comprise the majority of passengers at these airports (see Table 5.1). There is also evidence that the lower prices on routes available from London's secondary airports have put some downward pressure on the lower end of fares, such as constrained fares offered to leisure passengers, at Heathrow and Gatwick (see paragraphs 5.202 to 5.205 and 8.37).

5.74. The arguments put to us, the data on catchments and available research on price sensitivity of leisure passengers suggest that the market for point-to-point leisure passengers does broadly include all London airports with competition being predominantly on a city-pair basis. We consider the case of rail travel further in paragraph 5.97.

5.75. There is also some competition for point-to-point leisure travellers from charter operators, either as part of a holiday package or on a seat-only basis.

Business point-to-point

5.76. In contrast, business travellers are likely to be more time and destination sensitive, but not as price sensitive as leisure passengers (see paragraph 5.14). They are likely to seek fully flexible tickets, high flight frequencies and standards of service. On short-haul routes, they will often require early morning departures and evening returns to fit their work schedule. Several airlines and the CAA told us that frequency was also very important on routes that carry a substantial proportion of business passengers, as such passengers require the flexibility to switch to earlier or later flights.

5.77. Business travellers will normally be looking to minimize travel time and will seek to depart and arrive at airports convenient to their originating location and their final destination. They are likely to be averse to making a journey involving a connection when a direct route which entails a quicker journey time is available.

5.78. BA and CityFlyer took the view that, given the improved transport links to London's airports, including Stansted, Luton and City, all London airports competed for point-to-point business passengers.

5.79. CAA data indicated that, for the period covered, about 80 per cent of all point-to-point business passengers using London airports travelled through Heathrow (see Table 5.1). As we have noted in Table 5.15 and paragraph 5.59, there is nevertheless a significant overlap in the catchment areas of Heathrow and Gatwick, even for business passengers, as both offer good rail access and a range of frequent services. There is therefore likely to be a significant degree of actual competition between services at these two airports.

5.80. The extent to which other London airports compete with Heathrow and Gatwick for business passengers is less clear. They currently attract only a very small percentage of such passengers (especially Luton), do not offer such a range of services or such frequencies as Heathrow and Gatwick, and their location suggests that their catchment areas are unlikely to overlap with those of Heathrow and Gatwick to any great degree. Against this, Stansted and City, at least, have good access from central London and there is evidence that services from these airports are starting to attract a growing proportion of business travellers (see Table 5.1). City, in particular, handles mainly business passengers and may be expected to provide a degree of competition for Heathrow and Gatwick, albeit on a very limited scale in view of its relative size. The evidence that a proportion of business travellers are being attracted by the prices charged by the low-cost no-frills operators (see paragraphs 5.16 and 5.197 to 5.205) suggests that services from Stansted, in particular, are also starting to offer a degree of competition for point-to-point business traffic. As yet, there is no direct evidence of a significant shift in business traffic to these airports from Heathrow and/or Gatwick. However, their accessibility to passengers starting their journeys in central London is almost certain to be having at least some impact, and with the rate of growth in these airports their catchment is likely to expand particularly if, as has been suggested (see paragraph 5.46), scheduled long-haul flights may commence at Stansted in the future.

Connecting passengers

5.81. As discussed in paragraphs 5.6 to 5.9, connecting passengers in general, do not tend to be concerned with the location of the airport where their connections are to be made. Based on IPS data, BA submitted that the number of connecting passengers from the UK regions using the four European hubs of Amsterdam, Brussels, Paris and Frankfurt increased by 39 per cent between the first nine months of 1996 and the first nine months of 1998.¹ However, it should be noted that, according to the CAA,² London's geographical location as Europe's most westerly major transatlantic gateway limits severely any scope for indirect travel (to the USA) over other European gateways as this would involve backtracking.

¹ONS estimate an increase of 55 per cent over the same period for all UK airports excluding Heathrow and Gatwick (see paragraph 5.214).

²CAP 639, CAA, 1994, *Airline Competition on European Long Haul Routes*.

Connecting leisure passengers

5.82. Connecting leisure passengers tend to be most concerned with the overall cost of their journey. If their journey includes a short-haul leg and a long-haul leg, then, given the relative size of the long-haul component in the cost, it is the long-haul leg which is likely to dominate the price and thus determine the choice of route and the airport where the connection will be made. If the connection is made in London they will want to fly via a specific London airport on the way between their origin and final destination. Leisure passengers undertaking a journey with only short-haul flights and connecting at London may, at times, have a somewhat wider choice as to the London airport at which they can make their connection and will tend to choose on the basis of overall cost and convenience.

5.83. CityFlyer submitted that some connecting passengers will be prepared to travel from one London airport to another to make a connection. However, both it and BA noted that passengers prefer to fly to the airport from which the connecting flight departs so as to avoid having to include such a ground transfer from one airport to another. We consider that most connecting passengers will try to avoid a ground transfer if there is an option of flying directly into the airport where they will be making the connection. This suggests that the market for such passengers should be defined in terms of airports rather than cities, that is, as airport pairs (except in relation to the minority of connecting passengers who start or end their journey in London, but make a connection at the other end of their journey—see paragraphs 5.7 and 5.8).

5.84. Many connecting passengers, both short-haul and long-haul, will have a choice of airport hub at which they connect. This is especially likely to be the case for long journeys where there is likely to be a considerable choice of connecting hubs. For example, a passenger flying to the Far East can travel via London, Paris, Frankfurt, Amsterdam or Brussels, or in some cases make a connection at a hub in the Middle East or Far East.

5.85. Since, typically, they are price sensitive, leisure passengers may be prepared to make more connections if this reduces the overall price of the journey.

5.86. Given the number of networks offering connections to both short-haul and long-haul destinations, it could be argued that there is significant competition for these travellers. There are some exceptions where few routes to an outlying location eliminate any choice over at least one leg of the journey. For example, travelling by air to or from Plymouth would necessitate travelling through Gatwick. We consider the nature and operation of hub competition in more detail in paragraphs 5.90 to 5.96 and 5.206 to 5.229.

Connecting business passengers

5.87. The choices facing connecting business passengers are similar to those of connecting leisure passengers. However, given the time sensitivity of business travellers, they are likely to give more weight to the overall travel time than to price in choosing their route and connection location. This suggests that when they have a choice of hubs, they will prefer hubs with high frequency of flights; also that they would exhibit a preference to travel point-to-point if it were conveniently available, whereas the leisure traveller could be expected to be more flexible and be prepared to make more connections than were absolutely essential.

5.88. Accordingly, the majority of business connecting travellers will tend to view the market as airport pairs and prefer airlines offering a choice of frequencies and higher-quality service.

Other forms of competition

5.89. As discussed above, airlines compete for passengers on a number of fronts including price/fares, quality and type of service and frequency. Airlines also compete against other hubs and alternative forms of transport. Airline alliances and loyalty programmes are also utilized as a competitive tool.

Hub competition

5.90. The discussion on connecting passengers above referred to the concept of hub competition. Hubs are airports offering a wide choice of routes and a large number of connecting flights. The ideal airline hub operation, achieved in some US hubs dominated by a single airline (typically accounting for well over 50 per cent of scheduled flights), is to have waves of arriving flights followed by waves of departures often utilizing a number of runways. Effective hubs can also operate at large airports where slots are less concentrated in one airline's hands (that is, a share of less than half the flights) and where other airlines operate short-haul and long-haul flights and passengers can make efficient connections.

5.91. BA argued that the hub competition which it faced from the networks of European airlines such as KLM and Lufthansa was a sufficient constraint on its behaviour, as was the competition from hubs at more distant airports, such as hubs operated by Continental Airlines (Continental) and Delta Air Lines (Delta) in the USA. It also pointed out that the ability of such airlines to offer passengers travelling to and from various points in the USA intralining flights between the USA and the UK gave them a significant competitive advantage on what were for BA transatlantic point-to-point routes.

5.92. The evidence of BA, other airlines and the CAA emphasized the strong preference of passengers for making connections between flights with the same airline, that is, intralining rather than interlining (see paragraphs 5.11 and 5.12). Airlines encourage this preference in advertising and in other ways (see paragraphs 5.109 and 5.112). Airlines also try to create conditions that are close to intralining when they cannot offer such a connection. Examples of this include agreements such as franchises and code sharing. British Midland suggested that it may be possible for code-sharing airlines to provide most of the benefits of a single airline—frequent flyer tie-ups, boarding cards, baggage being checked through etc—in order to create conditions and/or perceptions of intralining.

5.93. BA estimated that, generally, passengers were two and a half times more likely to make an intralining connection than an interlining one. However, it should be noted that this result could be driven by what is available. The share of services held by the major carrier at hub airports is often such that options for interlining rather than intralining are relatively limited. Therefore, while passengers' preference for intralining is a factor acknowledged by most airlines, the extent to which intralining is used may not be an accurate guide to the relative benefits which passengers perceive that they receive from the service. However, the ability of an airline to benefit from feed traffic is nonetheless likely to be greater if the connection at the hub is between two of its flights.

5.94. The strength of a hub is usually measured by its absolute size in terms of the number of flights available, and by the major airline's proportion of total flights at the airport. These reflect the airline's ability to provide a large number of connecting flights, to plan its schedule, and to feed traffic from one flight to another. In situations where several airlines fly under the same brand, a more appropriate measure is the total number of flights under the same brand and their proportion of the total number of flights in the airport.

5.95. In the case of long-haul journeys where passengers are largely indifferent to the location of the airport at which they make a connection, and are more concerned with arranging a convenient or more economical journey, hub competition can be between distant airports. For example, London competes with Frankfurt and Amsterdam for passengers travelling from Düsseldorf to New York, and with American Airlines' hub in Chicago for passengers travelling from Manchester to San Francisco.

5.96. The important factors in hub competition are: the availability and frequency of flights to the required destination; the convenience of the connection at the hub; the total journey time; and the overall price. Connecting passengers are a significant minority of passengers at Heathrow and Gatwick, but as yet are a very minor feature of traffic at the other London airports (see Table 5.1). Large network airlines, such as BA, take into consideration hub competition in setting fares and schedules where such competition is effective. (See also paragraphs 5.206 to 5.229.)

Alternatives to air travel

5.97. In some cases it can be argued that ground transport provides effective competition for air services. For example, CityFlyer noted that it ceased operations to Antwerp in light of competition from the Eurostar high-speed rail service. Rail can also be a viable alternative for some domestic routes. BA and CityFlyer put the case that for passengers travelling between Newcastle and London, rail services provided a very effective substitute for air services. BA argued that the principal features of rail's competitiveness on this route were: high frequency of trains, comparable city centre to city centre travel time, and cost:

- *Frequency.* With 29 to 30 trains per day between central London and Newcastle, BA considered that this far exceeded the best air schedule with Gatwick and Heathrow each having six services a day.
- *Travel times.* While the plane journey takes about an hour, BA argued that for many times of the day, the train journey is quicker. For example, business travellers who leave home in Newcastle at 5.45 am can be in the centre of London by 9 am if they fly, and by 9.50 am if they take the train. But if they leave home after 6 am, they will not be able to fly to London before midday, but there will be at least four trains that will get them to London before then.
- *Cost.* £140 for a single full economy air ticket and around £106 for a first class single on the train with smaller differences in the cheaper tickets—approximately £70 for a special air return and £66 for a supersaver train return.

5.98. BA also provided us with passenger figures. It estimated that for point-to-point passengers between Newcastle and London 74 per cent travelled by rail and 26 per cent by air.

Cooperation between airlines

5.99. A notable development in the airline industry in recent years has been the growth in cooperation between airlines. The nature of this cooperation can vary widely from cooperation on sales and distribution, schedule linkages, frequent flyer programme linkages, code sharing, franchise agreements and in some instances equity stakes. The CAA estimated¹ that the total number of alliances worldwide grew from 280 in 1994 to 502 in 1998.²

5.100. The CAA gave a number of reasons for such cooperation between carriers,³ including: to achieve a global strategy to try and address the demand imbalance from region to region and over time; to reduce costs through the potential to achieve scale economies in ground handling, passenger service charges, distribution and sale costs, and overheads; to enhance market access by using links with other carriers to overcome regulatory restrictions; and to take advantage of those markets, such as smaller regions, best served by a smaller regional carrier. It noted that the trend towards commercial alliances between airlines had the potential to increase concentration but that, at the same time, it is possible that some partnerships could strengthen competition or prevent the withdrawal of services at the individual route level.

5.101. There are two key types of close cooperation, or partnership, between airlines: code sharing and franchising.

Code sharing

5.102. Code sharing involves one airline attaching its designator code to the flights of its partner with both airlines marketing the service. Code-sharing agreements are quite widespread and tend to be

¹CAP 685 CAA, 1998, *The Single European Aviation Market, The First Five Years*, p147.

²It should be noted that these figures are very volatile, and there are a number of difficulties in collating data. Accordingly they should be treated with caution. CAP 685, p14.

³CAP 685 p149.

very volatile over time.¹ The CAA estimated² that in Europe in December 1997, the total number of intra-European code-share flights between national carriers³ and other EU airlines was about 16,121, covered by at least 115 agreements between different airlines.

5.103. Code-sharing arrangements on interconnecting flights usually involve through baggage transfers and may look to passengers like intralining when in fact an interlining connection is being made. The AUC expressed concern about such arrangements since they permit an airline to present the services of another as being its own. In the AUC's view, therefore, code-sharing arrangements involve an element of deception. Such sentiments were also reflected in evidence to the Commission from a number of other parties.

5.104. Strategic alliances between airlines tend to be regarded as the most integrated of agreements encompassing the greatest degree of co-operation. They are often formed as part of a wider objective of globalization.⁴ Table 5.17 lists the major world strategic alliances.

TABLE 5.17 Major world strategic alliances

<i>Star Alliance</i>	<i>Qualifyer</i>	<i>Atlantic Excellence</i>	<i>KLM Alliance Group</i>	<i>oneworld</i>
United	Turkish Airlines	Sabena	KLM	British Airways
Lufthansa	AOM French	Delta	Northwest	Qantas
SAS	TAP Air Portugal	Austrian Airlines	Alitalia	Cathay Pacific
Air Canada	Sabena	Swissair		American Airlines
Thai	Austrian Airlines			Canadian Airlines
Varig	Swissair			Finnair*
Air New Zealand	Crossair			Iberia*
Ansett Australia	Lauda Air			
	Tyrolean			
	Air Littoral			

Source: CityFlyer, BA and CAA.

*Will become members of the oneworld alliance during 1999.

Franchising

5.105. Franchising usually involves a small airline operating routes under a major carrier's code and livery. There are a number of large operators that franchise their brands in Europe. These include BA, Lufthansa, Air France and Iberia. Franchising is also widely used in the USA.

5.106. The CAA has noted⁵ that there are a number of benefits to franchisors from these agreements, including the benefit of expanding the network and increasing feeder traffic at no capital cost, the transfer of risk to the franchisee and the ability to quarantine costs. It considered that the franchisee benefits from increased feed traffic, a worldwide marketing and distribution network, and the more general 'halo' effect in terms of reassuring passengers that might be concerned at travelling on smaller, perhaps turboprop, aircraft. The ability to participate in frequent flyer programmes and use airline airport lounges also helps to improve the competitive position of the franchisee. They can also benefit from economies of scale in access to a global reservation and ticketing system as well as the ability to exploit the franchisor's buying power. These benefits are offset to some degree by additional costs associated with meeting the service standards of the franchisor.

5.107. The CAA noted that there is the potential for the growth in a franchisor's brand and network to act as a deterrent to new entry at the route and industry levels. While the CAA has not found hard evidence of this, it did note that the increasing brand presence of franchisor airlines may be

¹CAA studies show that airlines change code-share partners frequently. CAP 685, p152.

²CAP 685 pp 150-151.

³National carriers were: Aer Lingus, Air France, Air Portugal, Alitalia, Austrian, BA, Finnair, Iberia, KLM, Lufthansa, Luxair, Olympic, Sabena and SAS.

⁴CAP 685 p152.

⁵CAP 685, p9.

a slow drain on the resources and vitality of smaller competitors. It further noted that the effects of such alliances on the industry would be unlikely to be easily observable.¹

5.108. The AUC submitted that, in some ways, a franchise offers even more potential for passenger deception than code sharing. However, it noted that this is, to some extent, redeemed by the rigorous auditing and continuous training that major airlines carry out to ensure a standard of service to match their own.

Loyalty schemes and incentive programmes

5.109. Some airlines operate loyalty schemes and incentive programmes for both travel agents and passengers.

For travel agents

5.110. Incentive schemes for travel agents include special discounts on fares and arrangements whereby travel agents earn extra commission if their total business with an airline exceeds certain thresholds. These schemes provide an incentive for travel agents to favour a particular airline.

For passengers

5.111. Passenger loyalty schemes, such as frequent flyer programmes,² encourage passengers to travel with either the same airline or within the airline alliance, where one exists. Such rewards then factor into the price of any ticket, requiring competitors' price discounts to be that much greater to provide effective price competition. The benefit of a large network within which to redeem such awards provides a competitive advantage. Frequent flyer programmes can make it more difficult for airlines with smaller networks to compete effectively with the result that the general level of fares could be higher than otherwise. Providing access to airline airport lounges also aims to promote customer loyalty.

5.112. Airlines may also make special arrangements with corporate bodies in order to attract their business custom. Such arrangements include fare discounts; upgrades in the services provided in terms of ticket flexibility, class of ticket and check-in arrangements; and the use of special facilities such as airline airport lounges.

Factors affecting competition

5.113. There are a number of factors that influence the ability of competitors to launch effective competing air services.

Slots

5.114. To operate from any particular airport an airline requires slots at a suitable and economically viable time for scheduling departures and arrivals. These times vary depending on the type of service—for routes with a high business traffic content, a short-haul operator will require a relatively large number of daily rotations as will a short-haul charter operator. However, a long-haul operator will frequently require only one arrival slot for each service, usually early morning, and one departure slot, usually in the late morning, although departures for some destinations can be in the late evening.

¹CAP 685, pp10 and 167.

²Frequent flyer programmes are schemes offered by airlines whereby 'reward points' accrue to passengers according to the number of kilometres they fly with that airline or affiliates as well as through other promotions such as staying in hotels and hiring cars. The points can then be redeemed for flights on that airline or affiliates, hotel stays, car hire and other gifts.

5.115. Many airports have enough slots to meet demand but some airports are congested. In these airports, where access to slots is constrained, slot allocation is usually fully coordinated (see paragraph 4.49). In the UK, Heathrow, Gatwick, Stansted and Manchester airports are fully coordinated.

5.116. At congested airports there is a shortage of daytime slots and there are even greater difficulties in obtaining daytime slots at the high demand peaks. There is usually less demand for night-time slots, defined as from 2330 to 0600 local time at UK airports. Some night-time slots can be used for long-haul scheduled flights (usually arrivals) and some are used by charter airlines for flights aimed at the leisure market.

5.117. Chapter 4 sets out the regulatory system governing the allocation of slots in congested airports. Allocation is governed by an EC regulation. In the allocation of new season slots grandfather rights have priority (see paragraph 4.51).

5.118. Slots can be freely exchanged. We were told that such exchanges sometimes involved a monetary or other consideration (see paragraph 4.56).

5.119. Under the EC slot regulation, new slots can be acquired in a number of ways: by a successful application to the airport Coordinator; by buying an airline, thereby inheriting the historic rights to slots of the acquired airline; or by swapping newly-allocated pool slots for another carrier's historic slots, where the new slots are then returned to the pool so that the net effect is that of a transfer. Slots can also be 'lent' to another carrier on a temporary basis (for example, Finnair lent BA some slots in summer 1998, the transaction being reversed in summer 1999 (see paragraph 5.251)). A carrier may also operate a service on behalf of another carrier, a so-called 'wet lease'. This is the situation with Virgin Express/Sabena at both Heathrow and Gatwick. According to ACL, the slots remain with Sabena, although Virgin Express aircraft and crew operate the flights (see paragraph 7.75).

5.120. At some airports in the UK, night-time operations are regulated by a mix of noise quota (referred to as quota count or QC) and night movement entitlements, which are allocated for the season in aggregate. The allocation process at each airport is governed by local rules adopted at that airport (see paragraph 4.62). For example, at Gatwick, initial night allocations are determined by VPP (see paragraph 4.78) which is based on the historic percentage share of capacity operated by each airline, both day and night. As there tend to be more flights during the day, the VPP tends to favour users of day slots, rather than those who actually use night slots. However, consultations are currently taking place on replacing the VPP night allocation system (see paragraph 4.84).

5.121. QC and night movement allocations can be freely swapped or loaned to other airlines. ACL advised that at Gatwick, airlines regularly lend night allocations to each other (see paragraph 4.83).

Airport facilities

5.122. Various facilities at or near an airport are required, and some are essential, to operate flights from the airport. Examples include check-in desks, suitable space for parking aeroplanes while unloading or loading passengers such as piers and jetties, and space for aircraft maintenance. Shortages and congestion of such facilities can in extreme conditions be a barrier to entry to operate from the airport. Even in less extreme conditions, shortages of facilities can affect an airline's ability to compete effectively.

Computer reservation systems

5.123. Travel agents and others involved in ticket sales use CRSs to access information on availability of air services. The screens in such systems show the alternative services provided and there is a considerable advantage to locating an available service high up the list, as for many destinations the systems provide a long list over several pages. Appearing on the first page of a CRS greatly enhances the likelihood that a particular service will be booked. BA, together with other airlines, emphasized the value of being on the first page of the CRS screen, and said that providing short connection times was a key step in ensuring a place high up the list.

5.124. Early CRS displays were generally biased towards the services of the airlines which owned them. They therefore could have a significant distorting effect on competition. The US authorities reacted to this by introducing guidelines to be followed in CRS displays that considerably reduced these distortions. The EC Council subsequently introduced a more stringent code of conduct for CRSs (Regulation EEC/2299/89 as amended by Regulation 3089/93). This Regulation, which has recently undergone a further revision, is legally binding on all CRSs used within the EC. It requires flights shown in the principal display of a CRS to be ranked in the following order: (a) all non-stop flights; (b) other direct flights not involving a change of aircraft; and (c) connecting flights. Unless otherwise requested by a consumer, flights must be ranked by departure time for group (a) and by elapsed journey time for groups (b) and (c).

CityFlyer's markets

5.125. CityFlyer is a small low-cost short-haul commuter airline. It has operated as a BA franchisee since 1993, having previously operated as BA's code-share partner since 1991. In 1998 CityFlyer served 12 destinations from Gatwick with scheduled operations: Luxembourg, Düsseldorf, Cologne, Jersey, Newcastle, Amsterdam, Zürich, Bremen, Dublin, Guernsey, Cork and Rotterdam. A service to Nice will be added in summer 1999.

5.126. CityFlyer operates all its scheduled services under the BA brand using BA flight codes, livery, cabin decor, cabin crew uniforms and ticket desks. It generally operates to BA's standards of customer service. In order to ensure that BA standards are applied on these scheduled services, CityFlyer is given access to, and is required to follow, the BA manuals and training programme.

5.127. In relation to key parts of BA's brand delivery—such as uniforms, airport signage and in-flight magazines—CityFlyer is required to use BA-nominated suppliers. However, for other matters CityFlyer is able to use alternative suppliers. CityFlyer's catering, maintenance and most ground handling facilities are handled independently of BA, but to BA specifications for catering and handling.

5.128. CityFlyer's passengers are entitled to use BA lounges and participate in the BA Executive Club frequent flyer programme, although CityFlyer is not prohibited from operating competing schemes.

5.129. BA and CityFlyer agree the routes upon which CityFlyer operates under the franchise agreement. BA said that most of the routes were low-volume 'thin' routes that CityFlyer was more suited to operating cost-efficiently. BA noted that under the franchise agreement CityFlyer had built up a profitable network of short-haul services, a thing never before achieved at Gatwick. BA further noted that CityFlyer had consistently outperformed BA's Gatwick short-haul operations (see paragraphs 5.189 to 5.192).

5.130. The franchise agreement does not prevent CityFlyer from operating scheduled services under its own brand. BA said that CityFlyer had chosen not to do this. However, CityFlyer does operate a small number of charter flights independently of the franchise agreement. These serve the Channel Islands, summer sun destinations in the Mediterranean and winter ski destinations in the Alps. In summer 1998, and winter 1998/99, CityFlyer operated six weekly summer charter flights and five weekly winter charter flights, accounting for around 3 per cent of CityFlyer's total flights. None of the routes served by these charter flights was served by BA.

5.131. CityFlyer is free to choose the frequency and scheduling of BA brand routes. However, BA said that both parties were obliged to use their reasonable endeavours to schedule their flights so as to promote connecting traffic between their respective services, and to promote the other as a connecting carrier.

5.132. BA said that CityFlyer retained its independence in relation to fares. All gross prices were established by CityFlyer. However, CityFlyer did not have a significant sales force in the UK or elsewhere, and effectively delegated its sales and revenue management function to BA. On the revenue management function, a dedicated team of BA employees dealing only with CityFlyer business worked under CityFlyer's guidance and aimed to obtain the highest possible return for CityFlyer within this arrangement.

5.133. BA said that although CityFlyer and BA priced independently, there was not in fact aggressive price competition between them (see paragraph 5.153).

CityFlyer's passengers

5.134. Table 5.18 shows a breakdown of CityFlyer's passengers by route, type of passenger and journey.

TABLE 5.18 CityFlyer passengers using Gatwick by route, type of passenger and journey, 1997

Route	<i>per cent</i>			
	<i>Point-to-point</i>		<i>Connecting</i>	
	<i>Business</i>	<i>Leisure</i>	<i>Business</i>	<i>Leisure</i>
Amsterdam	38	24	14	24
Bremen	29	26	22	22
Cologne	34	28	12	26
Dublin	13	43	19	25
Düsseldorf	15	29	19	37
Guernsey	26	43	4	27
Jersey	24	42	3	31
Luxembourg	36	27	16	21
Newcastle	48	16	12	23
Cork	4	32	39	25
Rotterdam	41	33	6	20

Source: BA.

5.135. Based on 1997 CityFlyer/BA figures, most CityFlyer passengers travel point-to-point, with the exception of passengers to and from Cork and Düsseldorf. In aggregate, 42 per cent of CityFlyer's passengers are business travellers—15 per cent connecting and 27 per cent point-to-point. Leisure passengers account for almost 58 per cent of CityFlyer's passengers—25 per cent connecting and 32 per cent point-to-point. The proportion of business travellers varies depending on the route, with most passengers on the Amsterdam, Bremen, Luxembourg and Newcastle routes flying as business passengers. Leisure passengers account for most of the passengers on the remaining routes.

CityFlyer and the BA network

5.136. Part of CityFlyer's business is as a feeder airline to BA flights out of Gatwick. CityFlyer told us that over the last three years it had experienced growth in transfer traffic to BA in excess of the growth in its point-to-point traffic. In 1998, transfer passengers to BA as a proportion of CityFlyer's passengers were in the order of 18 per cent. CityFlyer noted that this estimate was conservative as it included only those passengers with through reservations or ticketing, and therefore did not take account of those passengers who travelled on separate reservations or tickets.

5.137. BA estimated that in 1998 about 25 per cent of CityFlyer's traffic fed on to BA mainline services compared with 2 per cent feeding on to other carriers. It initially said that CityFlyer's contribution to feed revenue was estimated at about £[] million for the year ended 31 March 1998, including about £[] million for transfers to or from Heathrow. BA subsequently revised this figure

to £[20] million a year including £[20] million relating to Heathrow, which represented an increase of £[20] per cent over the previous comparable period (see also paragraph 3.41).

5.138. Another estimate can be based on CAA Survey data. This shows that in 1996, total transfers on CityFlyer routes were in the order of 40 per cent, with 72 per cent of these transfers connecting to BA flights. This suggests that around 30 per cent of CityFlyer's passengers connect to BA, and a further 10 per cent connect to other carriers.

CityFlyer's routes

5.139. Table 5.19 shows the scheduled flights from all five London airports to CityFlyer destinations and the origin and frequency of these flights for one day in July 1998.

TABLE 5.19 Scheduled flights on CityFlyer routes, by London airport, 15 July 1998

	CityFlyer Gatwick	All airlines from:					London area
		Heathrow	Gatwick	Stansted	Luton	City	
Luxembourg	3	3	3	2	-	-	8
Düsseldorf*	4	8	4	3	-	-	15
Cologne	4	4	4	-	-	-	8
Jersey	4	4	8	3	3	-	18
Newcastle	6	6	6	3	-	-	15
Amsterdam	5	24	9	8	3	4	48
Zürich	3	11	3	-	-	3	17
Bremen	3	1	3	-	-	-	4
Dublin	6	23	10	19	5	7	64
Guernsey	4	0	8	3	3	-	14
Cork	3	5	3	4	-	-	12
Rotterdam	3	4	3	-	-	5	12

Source: OAG World Airways Guide, July 1998.

*Flights to Moenchengladbach (otherwise known as Düsseldorf Express Airport) are not included in Düsseldorf data. We were told by CityFlyer that there were four flights from City and two from Luton which carried 66,000 and 55,000 passengers respectively. See paragraph 5.164.

Note: Flights are round trip.

5.140. Table 5.20 shows the London airports from which passengers depart to CityFlyer destinations. The great majority of passengers using London airports travelled to or from Gatwick and Heathrow. City and Luton had only a very small proportion of total passengers. Stansted's share of passengers was generally small except on the routes to Cork and Dublin where it accounted for over 20 per cent of passengers, more than the number using Gatwick on these routes.

TABLE 5.20 Passengers on CityFlyer routes, by London airport, 1998

	CityFlyer Gatwick	All airlines from:					London area
		Heathrow	Gatwick	Stansted	Luton	City	
Luxembourg	56	117	56	31	-	3	207
Düsseldorf*	73	609	73	77	-	-	759
Cologne	71	209	71	0	-	-	280
Jersey	138	269	347	90	20	-	726
Newcastle	160	438	160	46	-	-	644
Amsterdam	172	2,106	451	372	198	166	3,293
Zürich	114	1,001	137	-	19	96	1,253
Bremen	78	29	78	-	-	-	107
Dublin	289	1,894	584	1,099	300	195	4,072
Guernsey†	79	26	272	62	10	-	370
Cork	103	333	103	251	-	-	687
Rotterdam	63	133	63	-	-	81	277

Source: CAA Airport Statistics, 1998.

*See footnote to Table 5.19.

†KLM uk discontinued its Guernsey services from Heathrow from 28 March 1998.

5.141. A detailed route by route analysis of the routes which both CityFlyer and BA operate (the overlap routes) is given in paragraphs 5.161 to 5.171.

BA's markets

5.142. BA is the largest UK airline. It operates from 15 airports in the UK including three London airports. BA's mainline services, its subsidiaries Brymon, Deutsche BA and Air Liberté, and its franchisees CityFlyer, British Regional, British Mediterranean, GB Airways and BASE all operate from Gatwick and Heathrow. BA's low-cost no-frills subsidiary, Go, operates from Stansted. BA has hubs at both Heathrow and Gatwick, and operates twice as many scheduled flights from Heathrow as from Gatwick (see Table 5.21).

5.143. Table 5.21 shows summer flights at Heathrow and Gatwick between 1986 and 1998. The table also shows BA's share of airport flights during that period. BA's share of flights at Gatwick increased substantially in 1988 following the acquisition of BCal and in 1993 with the purchase of Dan-Air (see paragraphs 3.8 and 3.9).

TABLE 5.21 BA's summer flights at Heathrow and Gatwick, 1986 to 1998

	Heathrow		Gatwick		Share of airport flights	
	Flights	Change %	Flights	Change %	Heathrow %	Gatwick %
Summer 1986	70,761		5,249		41	10
Summer 1987	72,179	2	5,791	10	40	9
Summer 1988	78,074	8	22,184	283	40	34
Summer 1989	79,806	2	15,797	-29	39	21
Summer 1990	86,398	8	15,240	-4	40	19
Summer 1991	84,562	-2	11,415	-25	39	18
Summer 1992	87,643	4	12,488	9	39	17
Summer 1993	90,905	4	26,841	115	39	36
Summer 1994	93,022	2	26,927	0	38	36
Summer 1995	94,516	2	28,585	6	38	35
Summer 1996	95,910	1	33,239	16	38	35
Summer 1997	94,022	-2	39,785	20	37	37
Summer 1998	98,407	5	42,826	8	38	38

Source: CAA data.

5.144. All BA's subsidiaries and franchisees that operate BA services from Gatwick and Heathrow effectively operate under the BA brand, although there are some differences in aircraft colours and in the cases of Deutsche BA and Air Liberté which operate under their own names. Their flight identifiers are BA and they are virtually indistinguishable, to the passenger, from BA. BA's control of these airlines varies from complete control to somewhat looser licensing of routes to be operated under the BA brand. These airlines provide feed for BA routes, occasionally take over some routes from BA (see Table 5.25) and generally work closely with BA. BA, together with all these related airlines, can be viewed as a BA 'group' which together contribute to the flexibility and hub capability of BA in both airports.

BA's passengers

5.145. Table 5.22 shows a business/leisure breakdown of BA's scheduled passengers at Heathrow, Gatwick and Manchester by world area. As can be seen, most passengers at these airports are leisure passengers.

TABLE 5.22 BA's scheduled passengers at Heathrow, Gatwick and Manchester, 1998

	<i>per cent</i>	
	<i>Business</i>	<i>Leisure</i>
Africa	36	64
Americas	26	74
Asia/Pacific	32	68
Europe	44	56
Overall	39	61

Source: BA.

Note: BA figures include Brymon.

BA's routes

5.146. BA operates a network of routes from both Heathrow and Gatwick. Table 5.23 provides information on the number of routes operated by BA and by its closely associated airlines from Heathrow and Gatwick in 1998.

TABLE 5.23 BA's long-haul and short-haul routes:* Gatwick and Heathrow, summer 1998

	<i>Short-haul†</i>			<i>Long-haul</i>			<i>Airport total</i>
	<i>BA</i>	<i>associated‡</i>	<i>Total</i>	<i>BA</i>	<i>associated§</i>	<i>Total</i>	
Heathrow	50	3	53	39	4	43	96
Gatwick	41	33	74	34	0	34	108
Total	91	36	127	73	4	77	204

Source: CAA.

*Only routes with one or more weekly flights.

†Including all flights inside geographical Europe and North Africa.

‡Brymon, Deutsche BA, Air Liberté, British Regional, GB Airways and CityFlyer.

§British Mediterranean and GB Airways.

5.147. BA, its subsidiaries and franchisees fly to around 100 destinations from each of Heathrow and Gatwick. More of BA's long-haul routes are out of Heathrow. Only three long-haul routes overlap between Heathrow and Gatwick: New York, Miami and Tel Aviv. Key points to arise from this table are:

- that BA operates most of the group's long-haul routes and relies quite substantially on its subsidiary and franchise airlines for operating short-haul routes and providing feed; and
- that this reliance on short-haul feed from subsidiary and franchise airlines is substantially greater at Gatwick than at Heathrow. This partly reflects the scale of CityFlyer's operations at Gatwick where 12 of the 33 short-haul routes provided by BA subsidiary and franchise airlines are provided by CityFlyer. In contrast, however, at Heathrow, BA operates almost all of the short-haul routes. It should be noted that short-haul parallel services from Heathrow operate in general, though not in every case, on thicker routes with more passengers, more suited to the larger aircraft in BA's mainline fleet (see Appendix 5.1).

5.148. BA, in organizing the schedule of its flights from London, sometimes moves routes between Gatwick and Heathrow and also transfers routes from BA's mainline operations to the rest of the BA group. Table 5.24, provided by BA, illustrates the route moves that BA has made between Heathrow and Gatwick in the last five years.

TABLE 5.24 Summary of BA transfers between Heathrow and Gatwick

Season	Transfer from Heathrow to Gatwick	Transfer from Gatwick to Heathrow
Summer 1995	1 of 2 daily services to Miami (in winter 1995 there had previously only been 10 per week at LHR. After the transfer there was a daily service from each airport)	
Summer 1996	Nairobi Lusaka Harare	
Winter 1996/97	Oporto (After one season transferred to a franchisee)	
Summer 1997	Plymouth and Newquay (Brymon frequency increased) Pisa (frequency increased) St Petersburg Buenos Aires San Paulo Rio de Janeiro Mexico Caracas	
Winter 1997/98	Inverness	
Summer 1998	Dhahran	Mexico
Winter 1998/99		Stavanger

Source: BA.

5.149. Most of the route moves made by BA in the last five years were from Heathrow to Gatwick. These included long-haul routes to Africa and South America, as well as some short-haul routes. Because BA has a substantial bank of slots at both Heathrow and Gatwick it has the ability and flexibility to move routes between Heathrow and Gatwick and thus to optimize the use of its overall portfolio of slots.

5.150. Table 5.25 lists those routes that BA mainline discontinued and which were taken up by a BA franchisee between winter 1995/96 and summer 1998. These can be viewed as transfers from BA to a franchisee. Some of these transfers involved a change of airport, such as the transfer of BA's Inverness service from Heathrow to British Regional at Gatwick. Other transfers were between operators within the same airport. In both cases, the ability to transfer routes to franchisees adds to BA's flexibility in organizing its schedule. Moves that also involve a change in airport help BA to get the best value from its slot holdings at its two London hubs.

TABLE 5.25 Transfer of BA routes to subsidiaries and franchisees, winter 1995/96 to summer 1998

Routes discontinued by BA	Routes added by subsidiary or franchisee
<i>Winter 1995/96</i> Bremen at Heathrow	Deutsche BA at Gatwick
<i>Winter 1996/97</i> Oporto at Heathrow Faro at Gatwick Amman at Heathrow	GB Airways at Gatwick GB Airways at Gatwick British Mediterranean at Heathrow
<i>Summer 1997</i> Toulouse at Gatwick Malaga at Gatwick Bordeaux at Gatwick Beirut at Heathrow Damascus at Heathrow	Air Liberté at Gatwick GB Airways at Gatwick Air Liberté at Gatwick British Mediterranean at Heathrow British Mediterranean at Heathrow
<i>Winter 1997/98</i> Inverness at Heathrow	British Regional at Gatwick
<i>Summer 1998</i> Zurich at Gatwick Lisbon at Gatwick	CityFlyer at Gatwick GB Airways at Gatwick

Source: BA.

Competition between BA and CityFlyer

5.151. There is no overlap between CityFlyer and BA on routes out of Gatwick (that is, no airport-pair competition). There is, however, an overlap on seven routes that CityFlyer operates from Gatwick and BA operates from Heathrow (that is, city-pair competition). These routes are: Luxembourg, Düsseldorf, Cologne, Jersey, Newcastle, Amsterdam and Zürich.

5.152. Important factors determining the scale of any actual competition between BA and CityFlyer on the overlap routes would be any competition on fares, quality of service, frequency and timing of flights and convenience.

Fares on overlap routes

5.153. BA and CityFlyer said that there is essentially no difference in their published fares on the seven overlap routes (see paragraph 5.133). BA provided Table 5.26 which shows BA and CityFlyer fares between 1996 and 1998 on the London–Amsterdam route. The table illustrates that the fares are essentially the same, except in the case of ad hoc special promotional fares where BA and CityFlyer choose to offer different fares.

TABLE 5.26 Comparison of BA and CityFlyer return fares on London–Amsterdam route, 1996 to 1998

		£									
Fare type	Class	Jan 1996		Jul 1996		Jan 1997		Jul 1997		Jan 1998	
		BA	FD	BA	FD	BA	FD	BA	FD	BA	FD
Club	C	290	290	304	304	320	312	328	328	338	338
Club point-to-point	D	229	229	246	246	258	272	264	272	274	274
Club 3-day return	D	-	214	-	241	-	257	-	-	-	-
Club Pex	D	-	-	-	169	-	175	-	-	-	-
Economy	S	248	248	260	260	272	266	278	278	286	286
Eurobudget	B*	214	205	230	230	242	236	248	248	255	248
Pex	B*	173	173	178	178	197	182	202	212	208	202
Apex	B*	-	-	-	-	166	-	170	-	175	-
Pex	K	-	-	-	-	146	-	150	-	155	-
Apex	K	-	-	-	-	135	-	138	-	142	-
Super-Pex	L	128	128	132	132	114	135	117	117	121	117
Super-Apex	L	-	-	-	-	104	-	107	-	110	-
Super-Pex	V	-	87	-	-	99	-	104	-	107	-
Super-Apex	V	-	-	-	-	79	-	83	-	85	-
World Offer	V	-	79	109	109	69	69	69	69	-	79

Source: BA.

*This was an S fare for CityFlyer until March 1997.

Note: FD is the designator code for CityFlyer. See Appendix 5.2 for description of fare classifications.

Service quality on overlap routes

5.154. The franchise agreement specifies service quality for CityFlyer. As part of the franchise agreement CityFlyer has to undergo monthly checks, measured by means of a survey of passenger opinions, Global Performance Monitor, that the services it offers are up to a standard determined by BA. The only difference that may still exist is in the size of aircraft, as CityFlyer operates smaller aircraft than those used by BA.

Flight frequency

5.155. It is widely recognized that frequency of flights and the exact timing of departures and arrivals are an important factor in airline competition, especially in the business passenger segment. There are some differences between CityFlyer and BA in the frequencies of flights on overlap routes.

In 1998 CityFlyer had more frequent flights on the Luxembourg and Cologne routes and BA had more frequent flights on the Amsterdam and Zurich routes (see Table 5.19).

5.156. Both CityFlyer and BA try to time departures and arrivals to fit the business traveller, within the limitations of available slots and other operational factors. They also cooperate in arranging schedules in order to maximize feed between each other (see paragraph 5.131).

Airport choice

5.157. The passenger's choice between BA and CityFlyer will depend, among other things, on the convenience of the airports from which BA and CityFlyer operate. According to estimates based on CAA data (see paragraph 5.56), for point-to-point short-haul passengers some 35 to 45 per cent of passengers are indifferent between the two airports. Based on the estimates of the proportion of point-to-point passengers on the overlap routes, about one-quarter of total passengers on the routes are as likely to use Gatwick as Heathrow. These passengers, as well as some others who are not entirely indifferent as between the two airports, are likely to choose the airline and airport with the more suitable schedule for their needs. Accordingly these passengers may have an equally convenient choice between BA and CityFlyer. However, BA and CityFlyer said that they do not make positive efforts to compete with each other for these passengers.

Route overlaps

5.158. Table 5.27 shows the share of total passengers carried by BA and CityFlyer on the seven overlap routes as a proportion of all passengers travelling through London airports on these routes.¹

TABLE 5.27 Share of total daily passengers on overlap routes, 1998

			Airport share of passengers					per cent
	BA LHR	CityFlyer LGW	Other LHR	Other LGW	STN	LTN	LCY	BA & CityFlyer London
Luxembourg	22	27	35	0	15	0	1	49
Düsseldorf*	51	10	29	0	10	0	0	61
Cologne	44	25	30	0	0	0	0	70
Jersey	37	19	0	29	12	3	0	56
Newcastle	68	25	0	0	7	0	0	93
Amsterdam	20	5	44	8	11	6	5	25
Zürich†	31	9	49	2	0	2	8	41

Source: Derived from CAA data.

*See footnote to Table 5.19 and paragraph 5.164.

†On this route, BA operated a Zürich service from Gatwick until end-March 1998, when CityFlyer took it over. The figures in other Gatwick include BA's operations from Gatwick.

Note: LHR=Heathrow; LGW=Gatwick; STN=Stansted; LTN=Luton; LCY=City.

5.159. Table 5.28 shows the split between business and leisure point-to-point passengers and connecting passengers for the overlap routes. Information on this basis is only currently available for Heathrow and Gatwick from the CAA 1997 Origin and Destination Survey.

¹See paragraphs 5.66 and 5.67 for reasons why the share on a route should be measured as the share of total passengers, including both point-to-point passengers and connecting passengers. There is perfect substitution in the supply of air services to these two groups of passengers and both groups are therefore considered to be in the same market.

TABLE 5.28 Total scheduled passengers on overlap routes using Gatwick and Heathrow by type of passenger and journey

Route	per cent		
	Point-to-point Business	Leisure	Connecting total
Amsterdam	38	42	20
Cologne	41	38	21
Düsseldorf*	35	33	32
Jersey	27	40	33
Luxembourg	39	34	26
Newcastle	36	10	54
Zürich	32	46	22

Source: CAA Survey, 1997.

*See footnote to Table 5.19 and paragraph 5.164.

Note: The survey showed no charter traffic on these routes in 1997.

5.160. The table shows that the majority of passengers on the overlap routes using Gatwick and Heathrow are either business passengers travelling point-to-point or passengers making a connection. The share of point-to-point business passengers on all the overlap routes, with the exception of Jersey, is higher than the average share of such passengers on all routes from Heathrow (28 per cent) and Gatwick (19 per cent) (see Table 5.2).

5.161. On all the overlap routes operated by BA and CityFlyer there is at least one other airline offering a competing service from a London airport. On one of the routes, Newcastle, there is competition from rail and road transport. Below we examine each route in turn.

London–Luxembourg

5.162. This route carried 207,000 passengers in 1998. It is a relatively thin route serving a significant proportion of point-to-point business and leisure passengers and only a minority of connecting passengers.

5.163. CityFlyer entered the London–Luxembourg route in May 1997. In July 1998, CityFlyer operated three daily flights from Gatwick, adding a fourth flight in August 1998. In addition, there is one daily BA flight and two by Luxair from Heathrow, and two further flights by Luxair from Stansted. Since November 1998, VLM has introduced three daily flights from City, which also carry Luxair's code. The joint share of passengers of BA and CityFlyer on this route was 49 per cent in 1998.

London–Düsseldorf

5.164. There were 759,000 passengers on this route in 1998. The passengers on this route split quite evenly with about a third point-to-point business passengers, a third point-to-point leisure and another third connecting passengers. CityFlyer entered this route in May 1993. In July 1998, CityFlyer had four daily flights from Gatwick, BA and Lufthansa each had four daily flights from Heathrow and KLM uk had three flights from Stansted. The joint share of passengers of BA and CityFlyer in 1998 was 61 per cent. In addition, there have been four daily flights by VLM from City and two daily flights by Debonair from Luton to Moenchengladbach (sometimes referred to as Düsseldorf Express Airport), a secondary airport 20 kilometres from Düsseldorf. Passengers on these flights, some 121,000, are not included in the share estimates in Table 5.27 (or in Table 5.19). If these passengers are added to the city-pair route, the combined BA and CityFlyer share is reduced from 61 to 52 per cent. Note that Düsseldorf airport is also quite near Cologne airport and competition on this route could also arise from flights to Cologne described below.

London–Cologne

5.165. There were 280,000 passengers on this route in 1998, another relatively thin route. Point-to-point business and leisure passengers were each about two-fifths of the total with a fifth connecting passengers. CityFlyer began operating this route in March 1996. In July 1998, CityFlyer operated four flights from Gatwick, and BA and British Midland, on code share with Lufthansa, each operated two flights a day from Heathrow. The joint share of BA and CityFlyer on this route is 70 per cent. However, as mentioned above, flights from London to Düsseldorf also offer some competition to this route. Furthermore, CityFlyer has now reduced its service to twice daily to Cologne.

London–Jersey

5.166. There were 726,000 passengers on this route in 1998. 40 per cent of passengers were point-to-point leisure passengers and a third were connecting passengers. CityFlyer entered this route in February 1992. In July 1998, CityFlyer and Jersey European each operated four daily flights from Gatwick, BA operated four flights a day from Heathrow, KLM uk operated three from Stansted and Jersey European operated another three from Luton. In 1998 the joint share of passengers on this route by BA and CityFlyer was 56 per cent. We were told by CityFlyer that VLM would commence a daily service from City to Jersey on 24 April 1999. There are also services to Jersey from Southampton.

London–Newcastle

5.167. There were 644,000 passengers on this route in 1998. More than half were connecting passengers and more than a third point-to-point business travellers. A small minority, 10 per cent, were point-to-point leisure passengers. CityFlyer entered this route in November 1992. In July 1998, it operated six flights a day from Gatwick. BA operated six flights a day from Heathrow and KLM uk three flights a day from Stansted. BA and CityFlyer's joint share on this route was 93 per cent in 1998. However, BA and CityFlyer argued that there is considerable rail and road competition on this route and details on the rail competition on this route are discussed in paragraphs 5.97 and 5.98.

London–Amsterdam

5.168. This is a thick route to a major European hub. In 1998 there were over 3 million passengers on this route. The passengers split into almost 40 per cent point-to-point business passengers and a similar proportion of point-to-point leisure passengers. Only 20 per cent were connecting passengers, the lowest proportion of connecting passengers on the overlap routes.

5.169. CityFlyer operated five flights a day and Transavia four a day from Gatwick. BA had seven daily flights, British Midland had eight and KLM nine per day from Heathrow. In addition, there were services from Stansted and City by KLM uk and, since November 1998, from Luton by easyJet. The joint share of BA and CityFlyer on this route was 25 per cent.

London–Zürich

5.170. BA transferred its Gatwick–Zürich route to CityFlyer at the end of March 1998. The route carried about 1.25 million passengers in 1998. This route had the highest proportion of point-to-point leisure passengers on the overlap routes, at 46 per cent. About one-third of passengers on this route are point-to-point business travellers.

5.171. CityFlyer operates three daily flights from Gatwick and BA operates five from Heathrow. Other airlines on the route in July 1998 were Swissair from Heathrow with six daily flights and Crossair with three daily flights from City. CityFlyer told us that Crossair had since increased its flights to five daily and Swissair operated two daily flights from Stansted. BA and CityFlyer accounted for 41 per cent of passengers on this route. A new feeder service, Swissair Express, has just been launched (April 1999) to feed traffic out of Stansted into the Swissair hub in Zürich.

Yields on overlap routes

5.172. The impact of competition on CityFlyer and BA services on CityFlyer routes can also be assessed by an analysis of yields (revenue divided by passengers) on these routes.

5.173. BA and CityFlyer offer two key fare types, Economy and Club, which are broken down into the following categories (see Appendix 5.2 for full description of fare types):

- *Economy*: concessions and other, consolidator fares, inclusive tour, groups, published excursion fares, published full fare and seat sales (that is, promotional fares).
- *Club*: concession and other, groups, published excursion fares and published full fare.

5.174. In Economy class, the largest group of passengers (some 35 per cent) travel on 'seat sales' which represents promotional fares, with 25 per cent of economy passengers travelling on the excursion fare. In Club class, around 83 per cent of passengers travel on the published full fare.

5.175. Table 5.29 shows the real growth in average yields on the overlap routes over winter 1997 and 1998.¹ The routes are divided into those where CityFlyer and BA account for more than 50 per cent of passengers on the route, and those where they account for less than 50 per cent.

TABLE 5.29 Change in real average* yields on overlap routes, winter 1997 to winter 1998

	per cent			
	Average yield			
	CityFlyer		BA	
	1997	1998	1997	1998
<i>Greater than 50% of passengers</i>	<div style="font-size: 4em; display: inline-block; vertical-align: middle;">(</div> <div style="text-align: center; padding: 0 10px;"> <i>Figures omitted. See note on page iv.</i> </div> <div style="font-size: 4em; display: inline-block; vertical-align: middle;">)</div>			
Cologne				
Düsseldorf				
Jersey				
Newcastle				
<i>Less than 50% of passengers</i>				
Amsterdam				
Luxembourg				

Source: BA and CityFlyer.

*Real average yield refers to the yield adjusted for inflation using the retail price index.

5.176. In the main, real average yields on all routes fell in 1997 and 1998 for both BA and CityFlyer. This pattern does not follow through into the full fare Economy and Club class sectors as shown in Table 5.30.

TABLE 5.30 Change in real yields on full fare Economy and Club tickets, winter 1997 to winter 1998

	per cent							
	Economy				Club			
	CityFlyer		BA		CityFlyer		BA	
	1997	1998	1997	1998	1997	1998	1997	1998
<i>Greater than 50% of passengers</i>	<div style="font-size: 4em; display: inline-block; vertical-align: middle;">(</div> <div style="text-align: center; padding: 0 10px;"> <i>Figures omitted. See note on page iv.</i> </div> <div style="font-size: 4em; display: inline-block; vertical-align: middle;">)</div>							
Düsseldorf								
Jersey								
Newcastle								
Cologne								
<i>Less than 50% of passengers</i>								
Amsterdam								
Luxembourg								

¹The winter rather than summer season is used as more data were available for this season.

5.177. Economy yields generally rose for both carriers in 1997 and 1998. This increase was stronger on those routes where BA and CityFlyer accounted for more than 50 per cent of passengers. In 1997, Club yields were weaker for both BA and CityFlyer, but recovered somewhat in 1998 for both carriers. In 1998, with the exception of [\approx], CityFlyer Club yields on those routes where BA and CityFlyer accounted for more than 50 per cent of passengers rose more than on the routes where they did not. For BA, yields were more evenly spread. BA said that the yield data do not properly reflect the impact of corporate discounts which increased in 1998, depressing full fare yields and total yields.

Competition in BA's wider markets

5.178. Table 5.31 groups BA's routes from Gatwick and Heathrow by the level of concentration on the route from each airport and from the two airports combined.

TABLE 5.31 BA's Heathrow and Gatwick services—market share by city served—scheduled passengers only

% share	Number of cities with share		
	Heathrow	Gatwick	Combined
100	23	62	37
75 to 99	7	13	13
50 to 75	30	11	53
25 to 50	40	6	49
10 to 25	9	2	9
<10	3	8	4
Total	112	102	165

Source: BA.

Notes:

1. Period for 12 months to October 1998 includes all operations reported during the period.
2. BA figures include Brymon but not other subsidiaries or franchisees. Data relate to airport-city pairs, that is Heathrow and Gatwick are treated separately at the London end, but at the 'other end' destinations have been aggregated to the city level.

5.179. BA argued that airlines operating from Heathrow compete with those operating from Gatwick, and vice versa, and that a route share of the combined services from the two airports provides a more meaningful picture of overall competition on routes. Such competition can be relevant for point-to-point passengers but it may be less so for connecting passengers. Competition for connecting passengers is based on origin-destination flows with the intermediate airport as a staging post. BA argued that Heathrow and Gatwick are alternative staging posts, but compete in a wider market with other hubs (see paragraph 5.91). Though Gatwick and Heathrow are relatively near one another, passengers would usually prefer and select a single airport in which to make a connection.

5.180. BA is the only carrier on just over 20 per cent of its routes from Heathrow, compared with over 60 per cent at Gatwick. Over half of all BA routes from Heathrow have levels of concentration of over 50 per cent of total scheduled passengers. At Gatwick this proportion is over 80 per cent. At the two airports combined, BA carries more than half of all passengers on over 60 per cent of the routes. More generally, BA told us that the number of short-haul routes on which it has two or more competitors is increasing.

5.181. Some of the routes on which there is high concentration are likely to be thin routes, with passenger volumes that cannot support more than one carrier. BA submitted that many airline routes can support no more than two direct operators. In 1997, only 7 per cent of European international scheduled routes were served by three or more carriers. BA also provided some evidence from the USA, where 68 per cent of non-stop domestic routes had only one carrier and less than 9 per cent had three or more carriers. (OAG, September 1998.)

5.182. Thin routes are, in general terms, those with only rather limited demand for air services. There is no precise definition of what level of demand constitutes a thin route, but it can be thought of as one where the volume of passengers will not support more than one carrier. This depends on the kind of frequency an airline thinks is necessary for the market, the kind of equipment to be used (which is influenced by the length of the route) and the traffic mix. Although new entry will stimulate traffic (that is, generally increase the number of passengers on the route), for a second operator to enter a route the volume has to be sufficient to sustain two operators.

5.183. We sought advice from the CAA as to what the minimum volume of passengers would be for short-haul business routes; that is, the sort of short-haul routes operated by CityFlyer using its smallest aeroplanes with 48 seats and a minimum frequency that covers the early morning and evening peak hours. The CAA said that it could be argued that the minimum volume would be about 30,000 passengers a year. Even allowing for some expansion of demand following new entry, this suggests that for the entry of another carrier the volume would possibly need to be some 50,000 to 60,000 passengers a year.

5.184. For long-haul operations it is even more difficult to get an estimate of the minimum volume required to support more than one operator. The CAA considered that a long-haul daily service using a 767 aircraft may require about 100,000 passengers a year. However, it noted that the allowance for expansion may be higher for long-haul than for short-haul routes and a service could be provided on a lower than daily frequency.

5.185. Table 5.32 shows the distribution of routes at Gatwick by number of carriers and passengers per year. Figures for parallel services from Heathrow are in brackets. As can be seen, the ranges for entry of a second and further carriers on a route are wide. This analysis lends some support to the view that the minimum size of route to support the entry of a second carrier is about 50,000 passengers a year. We note, however, that the table does not represent an unconstrained situation since airlines at Gatwick are constrained by the capacity of the airport, bilateral agreements on some routes and the nearby presence of Heathrow. Further, it should be noted that on the 102 routes from Gatwick with more than 50,000 passengers, there are competing services offered from Heathrow on 67 routes.

TABLE 5.32 Routes at Gatwick and (Heathrow) by number of passengers a year at Gatwick and number of carriers, 1998

No of passengers '000	Number of carriers on route			
	1	2	3	3+
Under 30	41 (17)			
30-50	11 (5)	1 (0)		
50-100	27 (17)	8 (6)		
100+	39 (22)	23 (17)	3 (3)	2 (2)

Source: CAA data.

Notes:

1. Airlines with 30 or less flights and 1000 or less passengers a year and routes with less than 5,000 passengers a year are not included. Fifth freedom operators above these thresholds are included in addition to third and fourth freedom carriers.
2. Figures in brackets are for parallel services from Heathrow.

Competitors at Gatwick and Heathrow

5.186. Over 60 scheduled airlines operate out of Gatwick and over 90 out of Heathrow (a limited list is at Appendix 5.3). BA and its competitors have increased their operations from these airports over the past three years.

5.187. Table 5.33 shows BA's share of scheduled passengers from Gatwick in summer 1998. BA carries the most passengers at nearly 50 per cent of scheduled passengers, with CityFlyer a distant second at 6 per cent, followed by Virgin Atlantic with 5 per cent. Looking at both scheduled and charter airlines at Gatwick, BA accounts for 31 per cent of passengers, followed by Monarch and

Caledonian, both charter airlines. CityFlyer has the fifth largest proportion of passengers at 4 per cent together with two charter operators, Britannia and Airtours.

TABLE 5.33 **Passenger share at Gatwick, 1998**

	<i>per cent</i>	
	<i>Share of scheduled/charter</i>	<i>Share of total</i>
<i>Scheduled</i>		
British Airways*	47	31
CityFlyer	6	4
Virgin Atlantic	5	3
GB Airways	5	3
Jersey European	4	2
Continental	3	2
American	3	2
<i>Charter</i>		
Monarch	18	6
Caledonian	17	6
Air 2000	14	5
Britannia	12	4
Airtours	10	4
Leisure International	6	2
Airworld	5	2

Source: BA.

*Includes scheduled passengers of Deutsche BA and Brymon.

BA route profitability

5.188. Two aspects of BA's route profitability are examined:

- a comparison of BA's profitability on its short-haul routes at Gatwick with that of CityFlyer; and
- whether there is any link between BA route concentration and the route's profitability.

Profitability of short-haul routes at Gatwick

5.189. BA provided information on return on sales (ROS)¹ for all BA routes at Gatwick and an estimate of the contribution of each route to its network. Many of BA's routes into and out of Gatwick have negative ROS. However, routes with negative ROS are not necessarily unprofitable in terms of their overall contribution to the network. Because many routes feed traffic into the rest of the network their contribution, overall, is generally higher. BA provided the network margin for each of its routes, defined as the network contribution of each route divided by the total network revenue. Explanations of BA's estimation method as well as information for the calendar year 1998 for all BA's routes at Gatwick are at Appendix 5.4.

5.190. BA's ten worst-performing routes in 1998 from Gatwick in terms of network margin are shown in Table 5.34.

¹ROS is defined by BA as total revenue minus all costs, direct or allocated costs, except corporate overheads (that is, corporate overheads are excluded from the calculation), as a percentage of revenue.

TABLE 5.34 ROS, network margins and contributions on BA's ten worst-performing routes, 1998

Route	ROS %	Network margin %	Network contribution £m
(Details omitted. See note on page iv.)			

Source: BA; see Appendix 5.4.

5.191. Estimates produced by the Commission based on CityFlyer information, and using BA's estimate that CityFlyer feed contributed £[\approx] million to the network in 1998 (see paragraph 5.137), illustrate that all existing CityFlyer routes in the seven months to 31 October 1998 had higher network margins than BA's ten worst-performing routes at Gatwick (see Table 5.35). The Antwerp route has since been discontinued, and is not included in the table.¹

TABLE 5.35 CityFlyer route evaluation

	Network margin %	Network contribution £m
(Details omitted. See note on page iv.)		

Source: Competition Commission analysis based on BA and CityFlyer data (Appendix 5.5).

5.192. CityFlyer's network contributions in pounds were also higher than the contribution of several of BA's routes from Gatwick. BA and CityFlyer data on notional operating profit are not on a comparable basis. CityFlyer's data are available for the seven months to October 1998 while the BA data are annual for 1998. [

Details omitted. See note on page iv.

]

Profitability and market share

5.193. BA supplied us with information for the 12 months to October 1998 on the 30 short-haul and 30 long-haul routes with the highest ROS for services from Heathrow and Gatwick—a total of 120 routes. BA also provided information on the 30 most concentrated short-haul and long-haul routes at the two airports.

¹CityFlyer said that the decline in the Antwerp route's viability reflected competition from the Eurostar high speed-rail service.

5.194. For short-haul routes, 24 of the routes from Gatwick on which BA's share was highest also appeared on the list of 30 routes with the highest ROS. The corresponding figure for short-haul routes was 21 out of 30. On the surface, this suggests a degree of correspondence between high ROS and high concentration. However, we do not consider the figures conclusive, not least because BA only operates about 40 short-haul routes from Gatwick and 50 from Heathrow, so that a significant degree of overlap between the two lists, particularly in relation to Gatwick, is inevitable.

5.195. On long-haul routes there seems to be very little correspondence between routes with high ROS and those with high concentration. In general, ROS is much higher on long-haul routes. This may reflect the more important indirect contribution of short-haul routes in providing feed traffic within the network.

No-frills competition

5.196. BA submitted that its services from Heathrow and Gatwick were subject to growing competition from no-frills airlines operating out of Stansted and Luton. To support its view, BA provided evidence on trends in domestic point-to-point travel and fares.

Trends in domestic point-to-point air services

5.197. With reference to the growth in point-to-point air travel BA provided Table 5.36, which shows the evolution of point-to-point domestic air travel since the mid-1980s, drawing on CAA surveys. BA said that all the growth in UK domestic air travel is occurring at Luton and Stansted. Within the Heathrow/Gatwick total, BA noted that Gatwick had gained at the expense of Heathrow as BA had developed its short-haul network at Gatwick. It noted that the total number of passengers using the two airports was static.

TABLE 5.36 **UK domestic point-point air travel**

million passengers per year

<i>Date</i>	<i>Heathrow/ Gatwick</i>	<i>Luton/ Stansted</i>	<i>London area</i>
1984	4.16	0.06	4.22
1987	5.05	0.08	5.13
1991	5.41	0.46	5.87
1996	5.45	1.49	6.94
1997	5.11	N/A	N/A

Source: BA using CAA surveys.

5.198. BA considered that the fall in the number of domestic passengers at Heathrow/Gatwick in 1997 was linked to the rapid expansion of Luton and Stansted, where passenger numbers grew by 33 per cent and 11 per cent respectively in that year.

5.199. BA considered that there were two possible interpretations of these trends:

- that airlines could be squeezing out domestic services—particularly from Heathrow—to make way for other more profitable services; or
- that competitive pressure from the development of lower-cost services at Luton/Stansted was drawing domestic passengers away from Gatwick and Heathrow.

5.200. BA considered that the latter option was the more plausible for three reasons:

- the healthy rate of growth in the domestic market overall (domestic point-to-point travel to/from the London airports rose by 3.4 per cent a year between 1991 and 1996—some 1.4 times the average rate of GDP growth over this period (2.4 per cent)) appeared to be much

more consistent with healthy competition than with a constrained supply of air services due to the withdrawal of services at Heathrow;

- the downward pressure in fares in the UK domestic market in this period; and
- the market boundaries between low-cost airlines at Luton and Stansted and established operators are becoming increasingly blurred (for example, there is evidence of low-cost airlines successfully targeting the business sector of the market).

5.201. However, we note that the rate of growth in domestic air services at Luton and Stansted could be consistent with both interpretations, rather than just the impact of no-frills competition.

Competitive pressure on fares

5.202. Table 5.37 shows the CAA's 1998 analysis of fares on three UK domestic 'trunk' routes—between London and Glasgow, Belfast and Manchester between November 1992 and November 1997. BA argued that price pressure was clearly evident on discounted fares. Flexible fares (all carriers) had also fallen on the London–Glasgow route, and risen, but below the rate of inflation, in the case of London–Belfast. BA submitted that the downward pressure on the less flexible fares reflected the fact that this segment of the market was where competition had been most acute.

TABLE 5.37 Summary of fare developments on sample UK domestic routes

Date	BA			All carriers		
	Lowest flexible	Lowest non-sale	Lowest sale	Lowest flexible	Lowest non-sale	Lowest sale
<i>London/Belfast</i>						
Nov 1992	198	111	59*	140	78	59*
Nov 1997	242	74	59	156	58	-
<i>London/Glasgow</i>						
Nov 1992	212	102	59*	212	102	59*
Nov 1997	256	72	59	179	38	-
<i>London/Manchester</i>						
Nov 1992	168	88	52	168	88	52
Nov 1997	198	65	59	198	55	-

Source: CAP 685.

*Same-weekend fare not available for travel originating in London. Lowest fares originating in London were £77 (BA) and £75 (all carriers).

Notes:

1. All fares are return.
2. See Appendix 5.6 for full description of fare categories used.

5.203. BA told us that the competition on discounted fares has led to a decline in average fares and yields. BA's yields on domestic routes to/from London had fallen by 12 per cent in real terms since 1993/94, with almost all the decline taking place in the last three years when the growth at Luton and Stansted had been particularly rapid. Stansted increased its passenger numbers by over 75 per cent between 1995 and 1998 and passenger numbers at Luton more than doubled.

5.204. The discussion above represents BA's view of the impact of no-frills competition. Other evidence presented to the Commission, for example by Ryanair, suggested that some of the demand for no-frills services was in fact new air services demand from two areas:

- an increase in the number of journeys per passenger, for example passengers travelling to Ireland three times a year rather than once; and

- a transfer to air services of those passengers previously travelling by ferry and land, for example to Scotland and Ireland.

5.205. Further, BA said in evidence that the entry of low-cost no-frills carriers had, in its view, grown the whole market, such that a reduced share of established passengers did not necessarily imply a loss of business.

Networks and hubs

5.206. BA is a large global airline with an extensive network of both long-haul and short-haul routes. It operates a hub at both Heathrow and Gatwick offering, in each airport, connections between a large number of flights and routes. The two hubs are geographically separate but not very far apart, a matter of some 45 miles, and around one hour by surface transport.

5.207. There is competition between BA's London hubs and the hubs of other airlines in other countries (see paragraphs 5.90 to 5.96). Connecting passengers usually have more than one way of reaching their final destination and a choice of hubs at which to make connections. The choice of hubs is usually wider for longer journeys and the competition between hubs is usually stronger for passengers willing to consider longer or more complex routes.

Competition from other hubs

5.208. Table 5.38, which compares the strength of BA's hubs at Heathrow and Gatwick with a mix of European and US hubs, was provided in evidence by the CAA. The CAA provided data on the number of flights and shares of total scheduled flights at the airports. It should be noted that comparing Gatwick on the basis of share of scheduled flights gives a misleading impression of BA's position at the airport compared with the other airlines in the table. This is because there is a higher proportion of charter traffic at Gatwick than at the other European hubs in the table. In 1995 (the latest available comparable figures from the ICAO), charter flights accounted for some 29 per cent of Gatwick flights, 1 per cent at Heathrow, 4 per cent at Frankfurt, 4 per cent at Paris (CDG) and 9 per cent at Amsterdam. Accordingly, BA's share of scheduled flights at Gatwick does not truly reflect its ability to influence the organization of its arrivals and departures at the airport. If charter flights are included, the share of Gatwick held by BA, its subsidiaries and franchisees would decrease from 66 per cent to approximately 50 per cent.

TABLE 5.38 Hub size*

		<i>Actual operator</i>		<i>Published operator</i>	
		<i>Share of total</i>		<i>Share of total</i>	
		<i>scheduled flights</i>		<i>scheduled flights</i>	
		<i>Flights</i>	<i>%</i>	<i>Flights</i>	<i>%</i>
<i>Europe</i>					
Heathrow	BA	7,214	37	7,458	39
Gatwick	BA	3,244	39	5,443	66
Frankfurt	Lufthansa	10,065	56	10,550	61
Paris (CDG)	Air France	9,572	53	9,487	52
Amsterdam	KLM†	7,352	43	9,763	58
<i>USA</i>					
Atlanta	Delta	19,193	57	25,345	75
Detroit	Northwest	11,253	57	15,857	80
Houston	Continental	10,354	57	15,143	84
Chicago	American	10,214	28	14,674	40
Chicago	United	13,568	37	16,784	46
St Louis	TWA	10,977	53	15,649	76

Source: CAA based on OAG, July 1998.

*Data refer to departing flights. Actual operator figures include flights actually operated by the airline and exclude franchise and other flights operated on the major airline's behalf. Published operator data include all flights under the airline brand. For further details see Appendix 5.7.

†Includes KLM uk.

5.209. Looking first at the number of flights operated under the BA brand, it is clear that at both Gatwick and Heathrow BA's ability to offer good connections is lower than that of other European hub airlines. Gatwick, in particular, has around half the number of flights of other European hubs. In turn, on this measure, all European hubs are much weaker than US hubs. It is only if BA flights at Heathrow are added to those at Gatwick that BA offers more flights than its European competitors, but this is stretching the concept of a hub to a considerable degree. A hub on two separate sites at a distance of 45 miles and no convenient and fast transport between the two airports is not comparable, in terms of offering good connections, to other European hubs on one site. Moreover, hubs on two separate sites involve extra costs in terms of duplicating facilities and short-haul feed networks as well as other direct and indirect coordination costs. Nevertheless, at least some aggregation of BA's resources at Heathrow and Gatwick is necessary for a true impression of its strength relative to the total of its European competitors.

5.210. In terms of the proportion of total scheduled flights, BA's position at Heathrow is relatively weaker than its major European competitors. BA's position at Gatwick, which includes CityFlyer, is stronger than its competitors, but not as significant as the proportion suggests for the reasons discussed in paragraph 5.208.

Double hubs

5.211. As can be seen in Table 5.38, both American Airlines and Delta operate hubs at Chicago O'Hare Airport. This 'double hub' is rare. In the 1980s and early 1990s there were two other double hubs in the USA: at Dallas Fort Worth and Denver International. In 1991, American Airlines had 62 per cent of passengers and Delta 31 per cent in Dallas, but since then Delta's share has dropped below 20 per cent. Denver used to be a hub for both United Airlines and Continental. However, since the early 1990s, Continental had decreased its presence and accounted for less than 3 per cent of passengers in 1997.¹

Choice of hubs

5.212. To test the availability, in practice, of alternative hubs to Gatwick we examined the following:

- whether, for the larger flows of passengers connecting at Gatwick, there were other alternative hub connections;
- whether passengers from airports within the UK would have a choice of hub connections; and
- the kind of route options available to passengers travelling from CityFlyer's destinations in Continental Europe to long-haul destinations, using Tokyo and Dallas as examples.

Large passenger flow connections

5.213. The three journeys with the largest numbers of passengers making a connection at Gatwick were from Houston to Amsterdam, Dubai to Houston and Houston to Dublin. On these three routes there were several alternative routes making good connections in other European or US hubs. For example: on the Houston–Amsterdam route, Washington offered a good connection; on Dubai–Houston, connections could be made via Amsterdam and Frankfurt and Athens and Frankfurt; and on the Houston–Dublin route, Atlanta, Newark and Chicago also offered good connections. In general, there will be a number of hub choices for thick routes.

¹Hub data are sourced from BA, Oppenheimer Report, based on US Department of Transportation information.

Connections for UK travellers

5.214. BA provided information from the IPS combined with BA's own data, to show the share of connecting passengers travelling via major European hubs (Heathrow, Gatwick, Amsterdam, Brussels, Paris (CDG), Frankfurt and Copenhagen) to and from UK regional airports. A table provided by BA is reproduced at Appendix 5.8. The table shows that in the first nine months of 1998, of those passengers travelling to/from the UK regions through the seven European hubs, around 39 per cent travelled through hubs other than Heathrow and Gatwick. Between 1996 and 1998, the share of connecting passengers from the regions travelling through Amsterdam and other European hubs had increased faster than the share going through Gatwick, whilst the proportion travelling via Heathrow had decreased. The ONS estimated that the number of connecting passengers from UK airports, excluding Heathrow and Gatwick, to the four European hubs of Amsterdam, Brussels, Paris (CDG) and Frankfurt increased by 55 per cent between the first three quarters of 1996 and the same period in 1998.

5.215. We examined how far passengers originating in the UK regions had alternative hubs in which to interconnect on routes that were operated from Gatwick. Of the 125 routes served from Gatwick,¹ 72 are also served from Heathrow, 79 from both Paris and Amsterdam, and 80 from Frankfurt. Passengers from Manchester have direct access to all these hubs whereas passengers from Belfast, Edinburgh, Leeds/Bradford and Newcastle have the option of using Heathrow, Amsterdam and Paris. Passengers from Aberdeen, Glasgow and Guernsey have the option of using Heathrow or Amsterdam, and passengers from Jersey have the option of Heathrow or Paris. KLM and Sabena have a network connecting UK airports to their hubs in Amsterdam and Brussels.

5.216. In contrast, there are UK airports such as Newquay and Plymouth that do not offer any other hub choices than Gatwick to passengers. The only other choice for these passengers is land travel to other UK airports. However, passengers from regional airports with long-haul services may also have interconnecting options at more distant airports.

5.217. To what extent these other hubs offer a realistic choice to passengers is not clear. For example, it has been argued that passengers tend not to like to 'go backwards to go forwards' (see paragraph 5.81), and airlines offering services from hubs such as Brussels to the USA may need to offer clear discounts to encourage certain UK passengers to travel that way. This may, however, be a more important phenomenon for passengers originating in London than for those starting their journeys in the UK regions. The evidence suggests that a significant proportion of UK passengers from the regions do in practice use hubs elsewhere in Europe and the choice is available to many others.

5.218. To summarize, BA has two hubs in London. BA's hub strength in each of these hubs is relatively low compared with its European competitors. It is only when the two hubs are combined that BA is seen to offer a larger number of flights from London than competitors offer from other European hubs. However, while hubs on two sites, such as Heathrow and Gatwick, do provide their incumbents with additional resources, the aggregate resources cannot be compared directly in terms of convenience and quality of connections, with single site hubs elsewhere.

5.219. For most journeys involving a connection there is hub competition to BA's hub at Gatwick. However, hub competition may be less effective on transatlantic routes due to London's geographical position, since using other European hubs for transatlantic journeys can often involve going east when the final destination is west. However, US hubs are able to provide effective competition for these passengers, as are other UK airports such as Manchester, Birmingham and Glasgow.

5.220. Hub competition would be expected to have a stronger effect on competition for passengers who have no choice of a direct route. It may also have some effect on leisure passengers who may consider making a connection even where there is an alternative direct route, if the longer journey is significantly cheaper. However, it is less likely that hub competition will have any restraining effect on fares for the time-sensitive business traveller, where a direct flight is available.

¹Route data taken in July 1998 at a frequency of two or more flights per week.

Routes from CityFlyer's Continental destinations

5.221. We also examined the connection options for passengers starting their journey in CityFlyer's Continental European destinations and then travelling west to Dallas or east to Tokyo (on Friday 9 April 1999).

5.222. On the first page of the CRS the options for passengers starting their journey to Tokyo in Amsterdam were two direct flights as well as two connecting flights via Frankfurt or Brussels. For flights to Dallas, the CRS presented three options: two flights via Memphis, and one with two connections through Paris (CDG) to J F Kennedy International (JFK) (on Concorde) with an airport change to La Guardia and then on to Dallas.

5.223. From Rotterdam to Tokyo all the four options on the first page were train connections to a direct service from Amsterdam. Of the three options to Dallas, the first involved two connections and an airport change, one at Heathrow (to board Concorde) and an airport change in New York, from JFK to La Guardia. The other two options were via Gatwick.

5.224. From Zürich to Tokyo there were three direct flights and two via Vienna. To Dallas three journeys were via Frankfurt, the fourth via Atlanta.

5.225. On the Luxembourg–Tokyo route there were two flights via Zürich and two via Frankfurt. To Dallas one connection at Gatwick was shown, two at Frankfurt and the other at Paris with an airport change from CDG to Orly.

5.226. From Düsseldorf, there were two direct flights to Tokyo and two connecting flights via Amsterdam. To Dallas, two journeys involved a connection at Orlando and the other at Frankfurt.

5.227. From Cologne, Tokyo could be reached with four flights via Frankfurt, one of which was a duplicate Lufthansa/All Nippon Airways code share. Dallas could be reached via Gatwick or Frankfurt.

5.228. From Bremen to Tokyo, the first option was a connection in Copenhagen and the next three were via Frankfurt. To Dallas, a connection at Frankfurt was the only option offered by the first page of the CRS.

5.229. The above examples illustrate that there are a number of flight options for long-haul destinations from CityFlyer's Continental European destinations, some of which involve Gatwick as a viable hub choice.

Slots at Heathrow and Gatwick

5.230. The slot allocation process is explained in paragraphs 4.48 to 4.84. Demand for slots is seasonal, peaking in the summer between May and October. Accordingly, our analysis has focused on the summer season and especially on the peak week—week 20 of the summer season (which falls in August).

5.231. Slot capacity at both airports has increased every summer season since summer 1996. This reflects, in part, more efficient use of the runways and other airport infrastructure. Slot holdings have also increased over this time period, as shown in Table 5.39. This reflects the increased slot capacity as well as the increasing use of off-peak slots (for example, evening arrivals and departures, and early morning departures).

5.232. The pool of slots available for allocation each season is increased by: new capacity at the airport; slots returned to the pool by airlines that contract, leave the airport or cease operations; and slots taken back to the slot pool under the 'use-it-or-lose-it' rule (see paragraph 4.58).

5.233. The slot holdings of BA, its subsidiaries and franchisees at Heathrow and Gatwick for the summer seasons between 1995 and 1999 are shown in Table 5.39.

TABLE 5.39 BA and associated airline slot holdings at Heathrow and Gatwick, summer 1995 to 1999

	Heathrow					Gatwick				
	S95	S96	S97	S98	S99*	S95	S96	S97	S98	S99*
BA	99,926	97,775	95,898	100,518	101,628	29,222	33,142	39,965	43,724	45,506
Brymon								1,974	1,970	2,042
Deutsche BA						864	3,519	2,982	1,582	2,169
Air Liberté/TAT					1,302	2,174	2,352	2,540	2,529	2,604
British Mediterranean					1,240					
GB Airways					868	2,302	1,783	4,367	5,411	6,418
CityFlyer						11,664	15,041	17,817	18,809	19,661
British Regional										806
BASE					310					372
Total airlines	256,219	251,726	253,409	261,117	278,723	130,085	136,651	148,758	153,694	167,819
Annual change (%)		2	1	3	3		9	9	3	6
BA and subsidiaries	99,926	97,775	95,898	100,518	102,930	32,260	39,013	47,461	49,805	52,321
% of total	39	39	38	38	37	25	29	32	32	31
BA, subsidiaries and franchisees	99,926	97,775	95,898	100,518	105,340	46,226	55,837	69,645	74,025	79,578
% of total	39	39	38	38	38	36	41	47	48	47

Source: ACL data.

*Summer 1999 figures are preliminary, taken at 28 March 1999.

Notes:

1. Data represent 24 hours and the whole season: 31 weeks in season S94, S95, S99 and 30 weeks in S96, S97, S98.

2. For Heathrow data, BA figures include those carriers which fly services using BA flight numbers as the primary identifier. Typically this will include Brymon, Air Liberté, and GB Airways from S95 and British Mediterranean from S97. S99 data are all separate. Brymon operated out of Heathrow in summer 1995 and summer 1996, but moved to Gatwick in summer 1997.

3. For Gatwick, all services by partner airlines, CityFlyer, Air Liberté, Deutsche BA, Brymon, British Regional and GB Airways are assumed to be on behalf of BA, although in some cases the slots may operate for those carriers only.

5.234. The table shows that BA and its subsidiaries' slot holdings have also increased along with the number of slots used at Heathrow and Gatwick. However, at Heathrow, their share of slots has increased at a slower pace than the total number of slots used. At Gatwick, where there were better opportunities to acquire slots during this period, the slot holdings of BA and its subsidiaries increased by 62 per cent between summer 1995 and summer 1999, while the total number of slots used at the airport (day and night) increased by 29 per cent.

5.235. BA and its subsidiaries' share of allocated slots at Gatwick grew from 25 per cent in 1995 to 32 per cent in 1998. At the start of the 1999 summer season, their share was 31 per cent. The increases occurred between 1995 and 1997, with the share of slots allocated to BA and subsidiaries remaining flat at 31 to 32 per cent since then. At Heathrow, BA and its subsidiaries' share has remained steady over the period at around 38 per cent.

5.236. At Gatwick, the share of slots used by BA, its subsidiaries and franchisees increased from 36 per cent in 1995 to 47 per cent in 1999, with the largest increase between 1995 and 1997. Since 1997, their share has remained relatively stable at 47 to 48 per cent of used slots. At Heathrow, BA, its subsidiaries and franchisees' share has remained at 38 per cent since 1997.

5.237. In the process of expanding its network of short-haul routes, CityFlyer accumulated a significant share of the daytime slots at Gatwick. Until summer 1999, CityFlyer increased its slot holdings by proportionately more than the increase in total used slots at the airport. By accumulating an increasing portfolio of slots, CityFlyer had been able to upgrade its slot holdings each season and improve its schedule accordingly. Since CityFlyer began its operations in 1991, available new capacity has become scarce. Accordingly, it may no longer be possible for a new entrant airline, or small incumbent, to increase its slot holdings as quickly as CityFlyer has done over the past seven years, although it is noteworthy that GB Airways has increased its slot holdings by roughly the same amount as CityFlyer since summer 1996.

Daytime slots at Gatwick

5.238. Slot allocations are split into daytime operations (between 0600 and 2330 local time) and night-time. There is more activity during the daytime period.

5.239. Table 5.40 shows the daytime slot holdings of all airlines at Gatwick in the peak week of the 1998 summer season, and the preliminary allocation, at 28 March 1999, for the summer 1999 season. It also shows each airline's share of capacity at each airport.

TABLE 5.40 Peak week daytime slot holdings at Gatwick, peak week summer 1998 actual use and summer 1999 preliminary*

	Actual summer 1998			Preliminary summer 1999		
	Total	Share total %	Share capacity %	Total	Share total %	Share capacity %
<i>Scheduled airlines</i>						
BA	1,434	29	26.4	1,395	27	25.0
Air Liberté	84	2	1.5	84	2	1.5
Brymon	66	1	1.2	66	1	1.2
Deutsche BA	52	1	1.0	70	1	1.3
<i>BA and subsidiaries</i>	1,636	33	30.1	1,615	31	29.0
CityFlyer	638	13	11.7	668	13	12.0
GB Airways	168	3	3.1	203	4	3.6
British Regional	-	-	-	28	1	0.5
BASE	-	-	-	12	0	0.2
<i>BA, subsidiaries and franchisees</i>	2,442	49	45.0	2,526	49	45.3
Jersey European	204	4	4	199	4	4
AB Airlines	94	2	2	54	1	1
Alitalia	92	2	2	84	2	2
BritAir	64	1	1	64	1	1
American Airlines	63	1	1	49	1	1
Virgin Atlantic	61	1	1	96	2	2
Continental	56	1	1	64	1	1
Ryanair	56	1	1	56	1	1
Sabena	52	1	1	52	1	1
Transavia	50	1	1	50	1	1
Other scheduled	514	10	9	620	12	11
Total scheduled	3,748	75	69	3,914	76	70
<i>Charter airlines</i>						
Caledonian (incl Peach)	226	5	4	219	4	4
Monarch	188	4	3	203	4	4
Air 2000†	158	3	3	242	5	4
Britannia	136	3	3	163	3	3
Airtours	91	2	2	96	2	2
Airworld‡	82	2	2	-	-	-
Leisure International§	74	1	1	-	-	-
Flying Colours	-	-	-	129	3	2
Other charter	282	6	5	186	4	3
Total charter	1,237	25	23	1,238	24	22
Total allocated slots	4,985		92	5,152		92
Weekly airport capacity	5,432			5,572		

Source: ACL data.

*Summer 1999 figures taken as at 28 March 1999.

†Air 2000 also used 15 slots for scheduled services in 1998 and 13 in 1999.

‡Taken over by Flying Colours in 1999.

§Taken over by Air 2000 in 1999.

5.240. The information in Table 5.40 for 1998 is for actual use of slots by airlines during the summer season. It is not fully comparable with the information for 1999 which is the preliminary allocation of slots for the season as at 28 March 1999. In 1998, BA was the largest holder of slots at Gatwick with 29 per cent of the allocated slots on its own and 33 per cent if subsidiaries are included. BA's franchisees add another 16 per cent to the flights operated under the BA brand. CityFlyer accounted for 13 per cent, the second largest holder of slots at Gatwick. The rest of the slots at Gatwick were allocated among a large number of airlines holding small proportions. Among scheduled

airlines the largest after CityFlyer was Jersey European with 4 per cent of total slots allocated and the largest charter operator at Gatwick, Caledonian, had 5 per cent of the allocated daytime slots in 1998.

5.241. BA's share of slots used for scheduled flights is higher at 38 per cent. However, although the preferred timings of scheduled and charter flights do not directly coincide, there is a significant overlap. Figure 5.1 shows the demand for slots split between scheduled and chartered operators. At Heathrow, scheduled carriers use all these slot times.

5.242. In terms of slot capacity at Gatwick, BA, its subsidiaries and franchisees accounted for 45 per cent of available slot capacity in the peak week of summer 1998. BA, its subsidiaries and franchisees have been allocated broadly the same proportion for the peak week of summer 1999.

Peak demand times

5.243. Demand for daytime slots varies through the day reflecting the different operational needs of the airlines and the routes they serve. ACL advised that the hours of highest demand were generally between 0600 and 1955 local time (in the summer, 0500 to 1855 GMT). Between these times, the demand for slots significantly outstrips supply (see Figure 4.2). It is the shortage of available slots at these times that limits the ability of competitors to launch competitive new services. The slot holdings for the peak week in summer 1998 are presented in Table 5.41, in GMT. The hours of highest demand are highlighted in the table. Data for the peak week in summer 1999 based on start of the season allocations are at Appendix 5.9.

5.244. BA's slot holdings in these high demand hours average around 30 per cent but there are several hours in the day when its share rises to over 40 per cent. Adding in BA's subsidiaries, the average slot holdings in the period rise to 35 per cent. The average holding of BA, its subsidiaries and franchisees in the high demand period is 51 per cent. For this group, the slot holdings are at or over 50 per cent of the total in over half the hours in the high demand time, and are over 60 per cent in three of the hours. CityFlyer's contribution to this total averages 13 per cent over the peak hours.

5.245. The pattern of peaks and troughs in BA's holdings reflect its attempt to create waves of arriving and departing flights at Gatwick. Such a pattern is commonly associated with hub airports, where airlines try to match the timing of feeder flights to the arrival or departure of long-haul flights to minimize connection times.

Short-haul peak hours

5.246. Short-haul operations on routes with high business traffic content often require three or four rotations a day to provide frequent well-timed flights to attract business travellers. Such short-haul operations therefore require six to eight slots a day starting in early morning, operating through the day with a flight in the early evening. There are few scheduled short-haul operations very late in the day or at night.

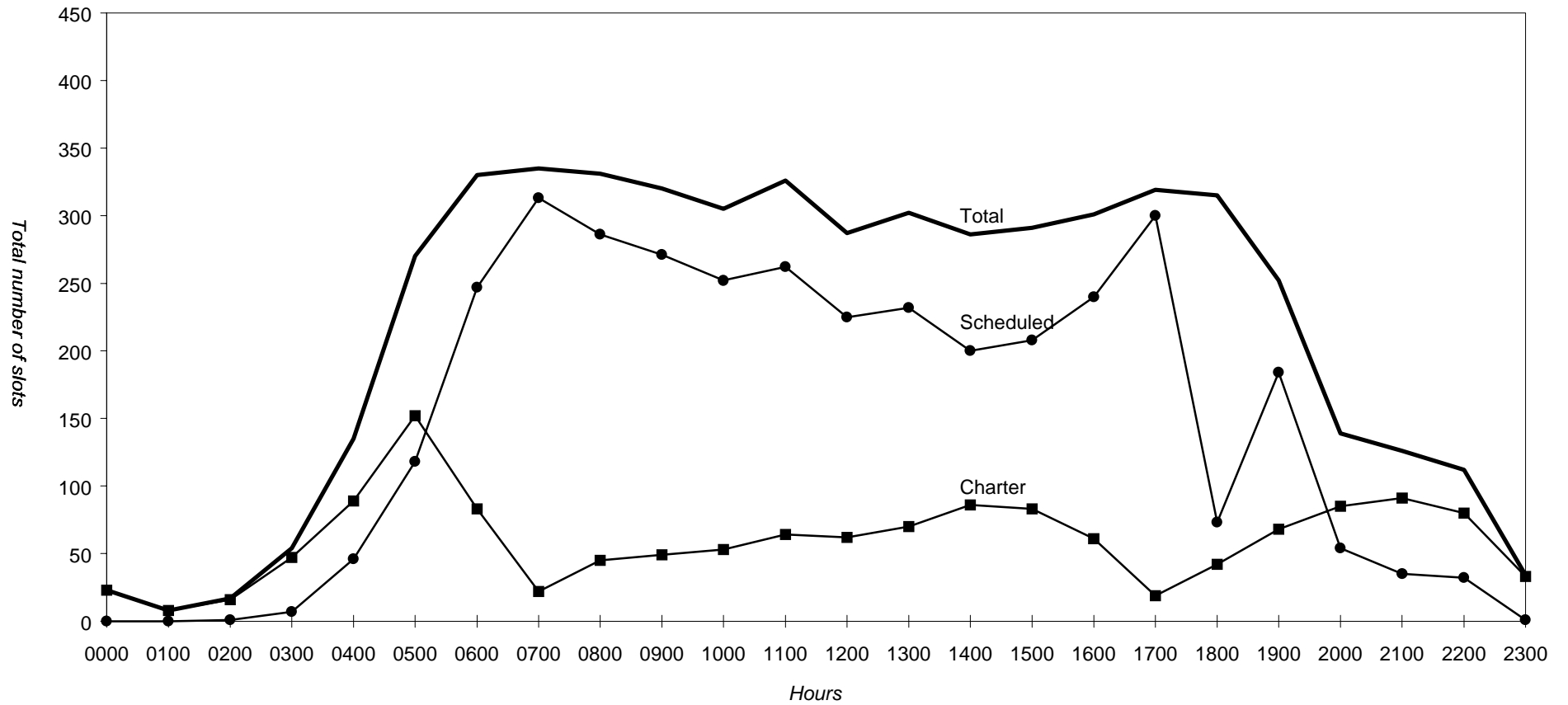
Long-haul peak hours

5.247. The slot needs of long-haul operators are concentrated in certain periods of the day. For example, transatlantic arrivals tend to be concentrated in the early morning, overlapping to an extent with the needs of short-haul flights serving business travellers leaving or arriving before or at the beginning of the working day. Transatlantic departures are mostly before noon.

5.248. As would be expected, CityFlyer has quite a large slot holding in the early period for its short-haul operations. BA on its own (that is excluding subsidiaries and franchisees) has a larger share in the later period when it competes more directly with other long-haul operators.

FIGURE 5.1

**Scheduled and charter airlines' use of slots at Gatwick,
peak week, summer 1998**



Source: ACL data for peak week, summer 1998.

TABLE 5.41 Gatwick slot holdings by airline category and time, peak week, summer 1998 (GMT)

	0000	0100	0200	0300	0400	0500	0600	0700	0800	0900	1000	1100	1200	1300	1400	1500	1600	1700	1800	1900	2000	2100	2200	2300	Total
Total slots used	23	8	17	54	135	270	330	335	331	320	305	326	287	302	286	291	301	319	315	252	139	126	112	34	5,218
	<i>per cent</i>																								
BA	0	0	0	7	22	26	24	37	42	43	23	28	37	23	23	19	32	46	31	22	14	10	6	0	28
BA subsidiaries*	0	0	0	0	0	0	8	8	5	0	0	4	5	5	2	4	4	6	10	3	0	0	0	0	4
CityFlyer	0	0	0	0	1	3	25	17	1	10	19	12	3	19	13	15	14	20	14	19	1	0	6	0	12
GB Airways	0	0	0	0	0	0	3	7	2	0	3	2	2	4	6	9	5	0	2	2	9	8	13	0	3
Other UK scheduled†	0	0	6	4	0	3	3	10	9	10	11	12	4	7	11	7	6	5	13	11	4	1	0	0	7
US airlines‡	0	0	0	0	10	5	4	6	13	9	11	9	5	5	2	0	0	0	0	0	5	0	0	0	5
Other non-UK scheduled	0	0	0	2	1	6	7	8	15	13	14	14	23	16	12	17	18	17	16	17	7	9	3	3	13
Total scheduled	0	0	6	13	34	44	75	93	86	85	83	80	78	77	70	71	80	94	87	73	39	28	29	3	73
Total charter	100	100	94	87	66	56	25	7	14	15	17	20	22	23	30	29	20	6	13	27	61	72	71	97	27
BA and subsidiaries	0	0	0	7	22	26	32	45	47	43	23	32	41	27	26	23	36	52	42	25	14	10	6	0	32
BA, subsidiaries and CityFlyer	0	0	0	7	23	29	58	62	48	53	43	44	45	46	38	38	50	72	56	43	14	10	13	0	44
BA, subsidiaries and franchisees	0	0	0	7	23	30	61	69	50	53	45	46	47	50	44	47	55	72	58	45	23	18	26	0	48

Source: ACL data.

*Includes Brymon, Air Liberté and Deutsche BA.

†Includes Jersey European, Virgin Atlantic, Air 2000 (Cyprus schedule) and AB Airlines.

‡Includes American Airlines, Continental, Delta, Northwest, TWA, US Airways.

Notes:

1. Data are taken from summer 1998 historic baseline for week 17 to 23 August and exclude any slots deemed as lost under the use/lose rules.
2. All times are shown in universal time (GMT) and cover slots between 00 and 55 minutes past each hour.
3. The high demand hours, between 0500 and 1800 GMT, are shaded.
4. A similar table for peak-week daytime allocations for summer 1999 is at Appendix 5.9.

New daytime slots

5.249. New slots are slots allocated to airlines in addition to those over which they have historical rights (see paragraphs 4.51 and 5.117). Table 5.42 provides data on four key stages of the slot allocation process for airlines at Gatwick in the summer seasons of 1997, 1998 and 1999. The stages are: the initial bid for new slots in October; the initial new allocation at the IATA scheduling conference in the previous November; the allocation just before the start of the season in March compared with the historical baseline; and for 1997 and 1998, the amount the airlines used by the end of the season (October) compared with the historical baseline. The table shows clearly that total bids for new slots (as defined above) greatly exceeded their availability. Requests for new slots were over three times the number allocated in the initial coordination in 1997 and over four times those allocated in 1998 and 1999. However, it should be noted that these figures may be somewhat exaggerated as many airlines submit tactical slot bids. New slots allocated by the start of the summer season were 7 per cent in 1997 and 1998 and 6 per cent in 1999 of the total slots allocated at the start of the season in each year.

5.250. BA and its subsidiaries used an additional 271 slots in 1997, added another 99 slots in 1998 and actually contracted their stock of slots at the start of the 1999 summer season by 18 slots. BA, its subsidiaries and franchisees increased their slots used by 450 in 1997 and 160 in 1998. By the start of the 1999 season, their slot holding had increased by 80 compared with the previous summer season.

5.251. The table shows that BA, excluding subsidiaries and franchisees, was initially allocated 51 new slots for the 1999 summer season, but started the season with 36 slots less than its historical baseline. BA explained that this was because 26 slots were transferred to Finnair by way of an exchange of slots, with the slots that BA received being returned to the pool. This reversed a similar exchange made in summer 1998. BA said that the rest of the difference related to the return of slots to the pool as BA's schedule was settled. For summer 1999, BA also moved its Islamabad service to Heathrow, releasing some further Gatwick slots to the pool. BA also noted that while the number of slots held by BA for the summer season had reduced, the overall timings of the slots held had been improved. Accordingly, BA said that it had improved the quality of its schedule rather than increased its overall frequency, reflecting the slowing in growth in its segment of the airline industry.

5.252. At congested airports, all airlines generally have difficulty in gaining new slots, especially at peak times, whether these be for new services or retimes. To illustrate the difficulty at Gatwick and Heathrow, Virgin Atlantic, in evidence to the Commission, submitted a summary of its applications for slots at these airports between summer 1993 and summer 1999. A summary table of its slot applications, allocations and use over that period is in Appendix 5.10. Over that time period, Virgin Atlantic was allocated around 64 per cent of the slots that it applied for. In the event, it used around 82 per cent of the slots that it was allocated (53 per cent of what it bid for). This may reflect a number of things including tactical bids, inability to gain operating licences for routes or other limitations as a result of bilateral agreements, lack of slots at Gatwick or destination airports or slots not being allocated at viable times. Virgin Atlantic told us that the lack of slots at Gatwick or the non-availability of slots at viable times was the prime factor in its inability to operate new services, or to retime services to times better suited to business travellers.

5.253. With reference to Table 5.42, in 1997, Virgin Atlantic received in the initial coordination 50 per cent of the new slots that it bid for, 24 per cent in 1998 and 12 per cent in 1999.

5.254. In total, all scheduled airlines, except BA, its subsidiaries and franchisees, decreased their use of slots in 1997 by 72 and increased them by 63 in 1998. At the start of the 1999 summer season they were allocated 139 new slots.

Night-time operations

5.255. Paragraphs 4.78 to 4.85 outline the allocation process for night-time operations (that is, night movement and noise quota allocations). Runway capacity at Gatwick is not a constraint at night,

TABLE 5.42 Daytime new slot allocations at Gatwick—bids and use, summer 1997 to 1999

	Actual summer 1997				Actual summer 1998				Preliminary summer 1999		
	New bid	Initial allocation	Start	Use	New bid	Initial allocation	Start	Use	New bid	Initial allocation	Start
<i>Scheduled airlines:</i>											
BA	489	161	242	227	358	61	150	140	220	51	-36
Brymon	0	0	65	66	0	0	0	0	0	0	0
Deutsche BA	42	5	-22	-24	32	4	-41	-41	54	18	18
Air Liberté	2	2	2	2	0	0	0	0	0	0	0
BA and subsidiaries	533	168	287	271	390	65	109	99	274	69	-18
CityFlyer	176	84	95	91	183	55	40	39	46	23	32
GB Airways	92	72	86	88	25	22	22	22	38	35	36
British Regional	0	0	0	0	106	8	0	0	54	25	28
BASE									26	0	2
BA, subsidiaries and franchisees	801	324	468	450	704	150	171	160	438	152	80
American Airlines	14	7	0	0	28	5	21	21	0	0	-14
Virgin Atlantic	38	19	-2	-1	34	8	14	14	82	10	35
Continental	15	9	7	6	16	2	2	2	14	8	8
Jersey European	86	27	22	23	25	5	5	9	0	0	-1
AB Airlines	32	30	22	26	92	37	29	33	77	8	-40
Alitalia	0	0	-12	-12	98	22	24	22	8	0	-6
BritAir	41	3	1	1	48	20	-2	-2	0	0	0
Ryanair	30	3	2	2	14	0	0	0	0	0	0
Transavia	0	0	0	-2	2	2	0	0	0	0	0
Sabena	0	0	28	28	40	12	24	24	14	0	0
Air 2000	0	0	0	0	0	0	1	1	1	1	-2
Other scheduled	611	138	-136	-143	452	98	-50	-61	462	77	159
Total scheduled	1,668	560	400	378	1,553	361	239	223	1,096	256	219
<i>Charter airlines:</i>											
Britannia	20	-10	-21	-26	53	19	16	15	46	15	30
Monarch	6	-9	-30	-22	15	1	-4	-3	-3	-1	19
Air 2000	27	15	22	22	5	3	-5	-6	2	-3	84
Caledonian/Peach	152	40	51	86	71	29	39	27	41	12	11
Airtours	10	-6	6	8	2	3	-4	-5	0	2	5
Airworld*	75	28	33	30	67	22	31	29	0	0	-78
Leisure International†	33	12	19	18	14	-1	2	0	0	1	-74
Flying Colours									26	2	95
Other charter	275	69	26	-23	173	20	25	29	133	47	-18
Total charter	598	139	106	93	400	96	100	86	245	75	74
Total	2,266	699	506	471	1,953	457	339	309	1,341	331	293

Source: ACL data.

*Taken over by Flying Colours in 1999.

†Taken over by Air 2000 in 1999.

Notes: 1. Summer 1999 figures taken on 28 March 1999.

2. Table refers to 0600 to 2330 GMT.

except in the 0500 hour (local time) for arrivals at Gatwick. Night movement and noise quotas are allocated by the Coordinator. It should be noted that these are season limits rather than specific night limits. In general, there appears to be sufficient night movement allocation to meet total demand. However, the DETR-imposed noise quota has been a limiting factor in summer seasons since 1997.

5.256. There are three key stages in the allocation process for night movement and QC quotas: the initial VPP allocation (in November), the pre-season 'operational allocation' (in February for the summer season) and regular reallocations during the season which culminate in a final use result at the end of the season in October. Table 5.43 shows these three stages and the airlines' allocations at each stage for the seasons summer 1997 and 1998 at Gatwick. For 1999, information is only available for the first two stages of the process.

5.257. As can be seen in the table, airlines' operational allocations for night flights before the start of the season can differ quite substantially from their actual final use. Some airlines, with no night flights, return their allocations to the pool early in the allocation process. Other airlines return a proportion of their allocation only during the season. This, in part, reflects the way the coordination process works. At regular intervals during the season (typically monthly) the Coordinator takes back any unused quotas that were planned to be used but were not, or not now planned to be used (see paragraph 4.80). These then become available to be reallocated. Many charter airlines, in making their plans for the forthcoming season, have to rely on allocations returned to the pool before or during the season.

5.258. BA gets the highest initial allocation of movements and QCs, at 35 per cent of the total in 1998 and 34 per cent in 1999. CityFlyer gets the second highest at 10 per cent followed by the charter airlines.

5.259. Table 5.44 examines in greater detail the process of the allocation of movements and QCs to BA, CityFlyer and some of the large charter airlines for 1997, 1998 and 1999. The table shows for each year the proportion of the initial allocation returned (a positive number) or taken (a negative number) from the pool before the season starts. For 1997 and 1998 there are also data on the proportion of the initial allocation that was returned or taken from the pool overall, up to the end of the season.

TABLE 5.43 Night operations at Gatwick summer 1997 to 1999—initial and operational allocation and final use of night movements and QCs

	Formal allocation		Summer 1997 Operational allocation		End of season		Formal allocation		Summer 1998 Operational allocation		End of season		Formal allocation		Summer 1999 Operational allocation	
	NM	QC	NM	QC	NM	QC	NM	QC	NM	QC	NM	QC	NM	QC	NM	QC
BA	2,556	2,405	1,209	3,245	743	2,073	3,208	2,735	1,480	3,559	981	1,640	3,078	2,624	1,731	2,176
Brymon	-	-	-	-	-	-	53	45	-	-	-	-	91	78	-	-
Deutsche BA	161	151	-	-	-	-	214	183	-	-	-	-	102	87	-	-
Air Liberté/TAT	123	115	-	-	-	-	106	90	-	-	-	-	145	124	-	-
CityFlyer	706	664	-	-	-	-	879	750	1035	483	62	36	905	771	105	52
GB Airways	115	109	118	118	93	130	235	200	310	261	262	262	319	272	409	382
British Regional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BASE	28	27	-	-	-	-	28	24	-	-	-	-	24	21	-	-
American Airlines	138	130	-	-	-	-	144	123	203	161	84	86	181	154	230	230
Virgin Atlantic	246	232	354	396	22	85	264	225	353	292	42	161	275	235	279	512
Continental	146	138	-	-	-	-	207	177	-	-	-	-	228	195	140	70
Jersey European	310	292	-	-	-	-	364	311	-	-	-	-	334	285	-	-
AB Airlines	-	-	-	-	-	-	-	-	-	-	-	-	114	98	-	-
Alitalia	159	149	-	-	-	-	162	138	-	-	-	-	157	134	-	-
BritAir	96	90	-	-	-	-	106	90	-	-	-	-	87	74	-	-
Ryanair	122	115	-	-	-	-	131	112	-	-	-	-	113	97	-	-
Transavia	117	110	-	-	-	-	116	99	-	-	-	-	109	93	-	-
Sabena	-	-	-	-	-	-	23	20	-	-	-	-	70	60	-	-
Virgin Express	-	-	-	-	-	-	4	4	9	5	38	35	4	3	10	8
Britannia	564	531	1,464	907	1,131	909	578	493	1,142	642	1,085	928	511	435	1,333	950
Monarch	706	664	1,365	1,136	1,243	1,048	689	587	1,361	763	1,201	1,010	558	476	1,361	919
Air 2000	503	473	1,164	591	681	484	534	455	1,054	592	895	464	443	377	1,452	931
Caledonian/Peach	367	345	643	589	783	1,229	502	428	992	557	804	1,208	514	439	1,100	957
Airtours International	285	268	820	458	662	398	344	293	680	382	678	423	325	277	784	447
Airworld*	29	28	85	47	253	200	83	70	163	92	157	297	141	120	-	-
Leisure International†	194	182	332	182	332	217	211	180	419	235	355	265	205	174	-	-

Source: ACL data.

*Taken over by Flying Colours.

†Taken over by Air 2000.

Note: NM = night movements.

TABLE 5.44 Gatwick night operations, summer 1997 to 1999

per cent

	Summer 1997				Summer 1998				Summer 1999	
	Operational allocation		End of season		Operational allocation		End of season		Operational allocation	
	NM	QC	NM	QC	NM	QC	NM	QC	NM	QC
BA	53	-35	71	14	54	-30	69	40	44	17
CityFlyer	-	-	-	-	-18	36	93	95	88	93
Britannia	-160	-71	-101	-71	-98	-30	-88	-88	-161	-118
Monarch	-93	-71	-76	-58	-98	-30	-74	-72	-144	-93
Air 2000	-131	-25	-35	-2	-97	-30	-68	-2	-228	-147
Caledonian/ Peach	-75	-71	-113	-256	-98	-30	-60	-182	-114	-118

Source: ACL data.

Notes:

1. Figures relate to the proportion of the airline's initial allocation either returned to the pool (a positive figure) or taken, a (-) refers to allocations taken from the pool.
2. NM = night movements.

5.260. BA did not use all its initial allocation of movements and QCs in 1997 and 1998. By the end of the season in both years BA used only some 30 per cent of its initial movement allocation and returned around 70 per cent to the pool.

5.261. The experience with noise quota is somewhat different. In 1997 BA started the season with some extra QCs but did not, in the event, use them. BA returned to the pool, after the operational allocation, both the extra allocation and 10 per cent of its initial allocation. In 1998, BA again received extra QCs from the pool, but by the end of the season used only 60 per cent of its initial allocation returning to the pool during the season both the extra allocation and 40 per cent of its initial allocation.

5.262. BA told us that its planned usage of night movements and noise quota are normally higher than its actual usage because, while it plans to use the night period for early morning arrivals, any delays in departures tend to take these arrivals into the daytime period.

5.263. Until 1998, CityFlyer did not operate at night and returned all its allocation to the pool early in the process. In 1998, with new plans for night flights, CityFlyer's operational allocation of movements was higher than the initial allocation. However, by the end of the season CityFlyer actually used a very small proportion of its movement and noise allocations and returned more than 90 per cent of them to the pool. In summer 1999, CityFlyer returned some 90 per cent of its initial allocation of movements and QCs to the pool before the operational allocation in February.

5.264. BA told the Commission that its night operations were not constrained by either noise quota or night movement limits. It had a comfortable excess of both movements and QC. This is supported by the information in Table 5.43. BA also said that it would not need any additional allocations for the foreseeable future—BA has no planned schedule beyond summer 2001, but has tentative plans up to 2007. Table 5.45 shows BA's planned usage of QC and expected initial allocations of QC at Gatwick. BA said that the progressive introduction of quieter aircraft on night routes from Gatwick will reduce its use of QCs in the future, but by 2007, BA expects its use of night quota to increase again. Nevertheless, BA's planned usage will still remain well within its expected initial VPP allocation.

TABLE 5.45 BA's planned usage of QC and expected initial allocations of QC at Gatwick, summer 1998 to summer 2007

Season	VPP %	Planned	Initial allocation*	% excess
Summer 1998	28.6	2,055	2,735	33
Summer 1999	29.2	2,108	2,654	26
Summer 2000	29.2†	1,800	2,654†	47
Summer 2001	29.2†	1,695	2,654†	56
Summer 2007‡	29.2†	1,935	2,654†	37

Source: BA.

*Only estimates of initial allocation for the summer seasons beyond and including summer 2000.

†Assumes BA has a constant share of activity at Gatwick.

‡BA considered these plans to be more speculative than those up to 2001.

5.265. As can be seen in Table 5.44, the large charter airlines rely on returns to the pool for a high proportion of the movements and QCs that they need. In 1998, at the operational allocation stage, Monarch, Air 2000, Caledonian and Britannia doubled their initial night movements allocation from the pool and increased their QC allocation by around a third. At the start of the season all these airlines were allocated enough movements for their planned operations, and by the end of the season they had used less than they were allocated at the start of the season. However, all these airlines started the season with insufficient QC allocation, but were able to obtain and use additional QC through the season.

5.266. Britannia told us that at the start of the 1998 summer season it did not have enough allocations to meet its plans. It had to start the season with insufficient operational allocation and got the extra allocation it needed only during the season from allocations returned through the season. The information in Tables 5.43 and 5.44 illustrates this shortage of QCs at the start of the summer season in 1998.

5.267. BA's handback to the pool of some of its allocation of movements and QCs is crucial for meeting the demand of airlines dependent on the pool for extra allocations. In 1998, BA contributed some 46 per cent of the movements and 34 per cent of the QC that were returned to the pool. CityFlyer contributed 17 per cent of returned night movements and 22 per cent of returned QCs.

5.268. Even allowing for a large margin of error, BA plans to return QC to the pool for the foreseeable future, at least to 2007 (see Table 5.45). Over this period, BA intends to increase the use of its night movement allocation, but should remain within its VPP allocation. Given BA's plans and its record of handing back both movements and QC, it is unlikely that, in the foreseeable future, it would need to utilize CityFlyer's VPP allocations in order to conduct its night operations.