

Competition, Regulation and Market References – UK airports

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The views expressed are my own and not necessarily those of the OFT

Why “study” markets?

- Holistic approach**
- Proactive approach
- Structure can be a problem
- Behaviour can be a problem
- Lift up the stone and find out what's underneath

Why not competition law?

- ❑ **Complex interactions between regulation, planning regime and market structure - airports**
- ❑ **Public sector may be at root of issue – CUPI, PPRS, taxis**
- ❑ **Interlinked consumer and/or competition issues across a whole market– PPI, internet shopping**
- ❑ **Quick wins – car warranties**

But it is difficult

- ❑ Diffuse pain – concentrated gain
- ❑ Potential significant burden on industry
- ❑ Relatively limited investigatory powers

A wide range of outcomes

- Clean bill of health
- Voluntary action by industry
- Consumer information/code of practice
- Recommendations to government
- Enforcement action if law breached
- Market investigation reference to CC

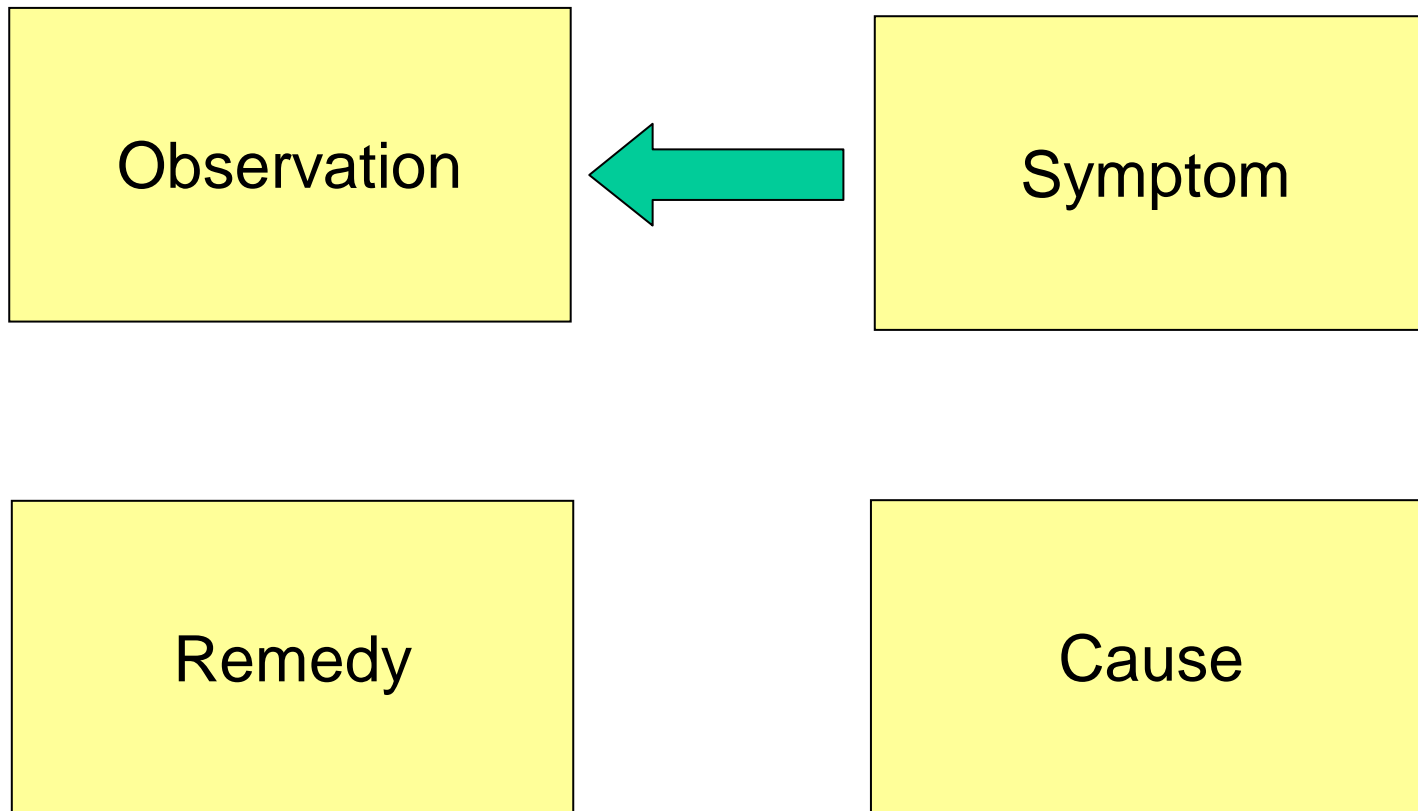
First do no harm

- Well functioning markets drive efficiency
- Well functioning markets drive innovation
- So well functioning markets drive economic growth
- Act only when we are clear there is a problem
- And only when we are confident of improvement

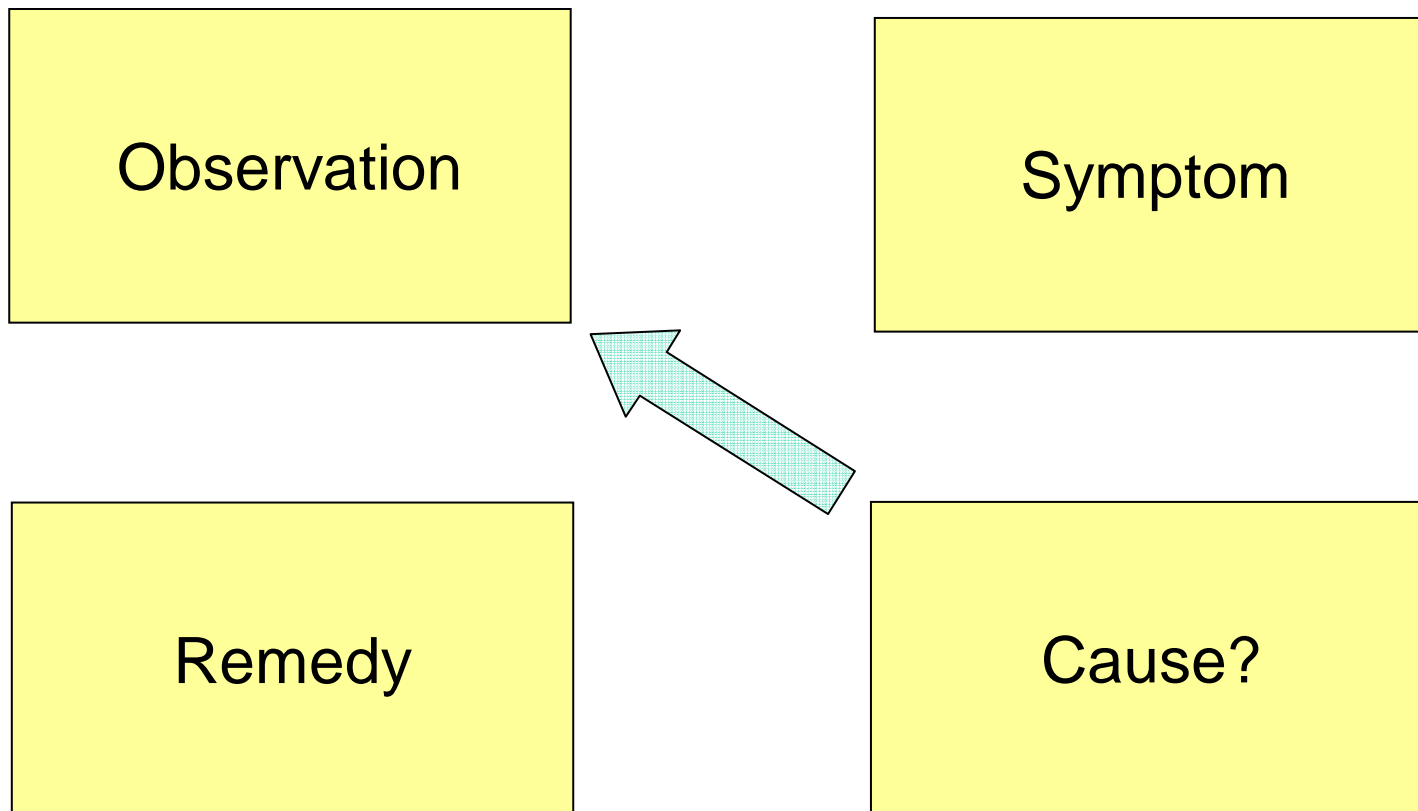
Biggest difficulty

- ❑ **Which markets to investigate**
- ❑ **Choosing wrong market is costly in terms of resources both ours and industry**
- ❑ **Why choose airports?**

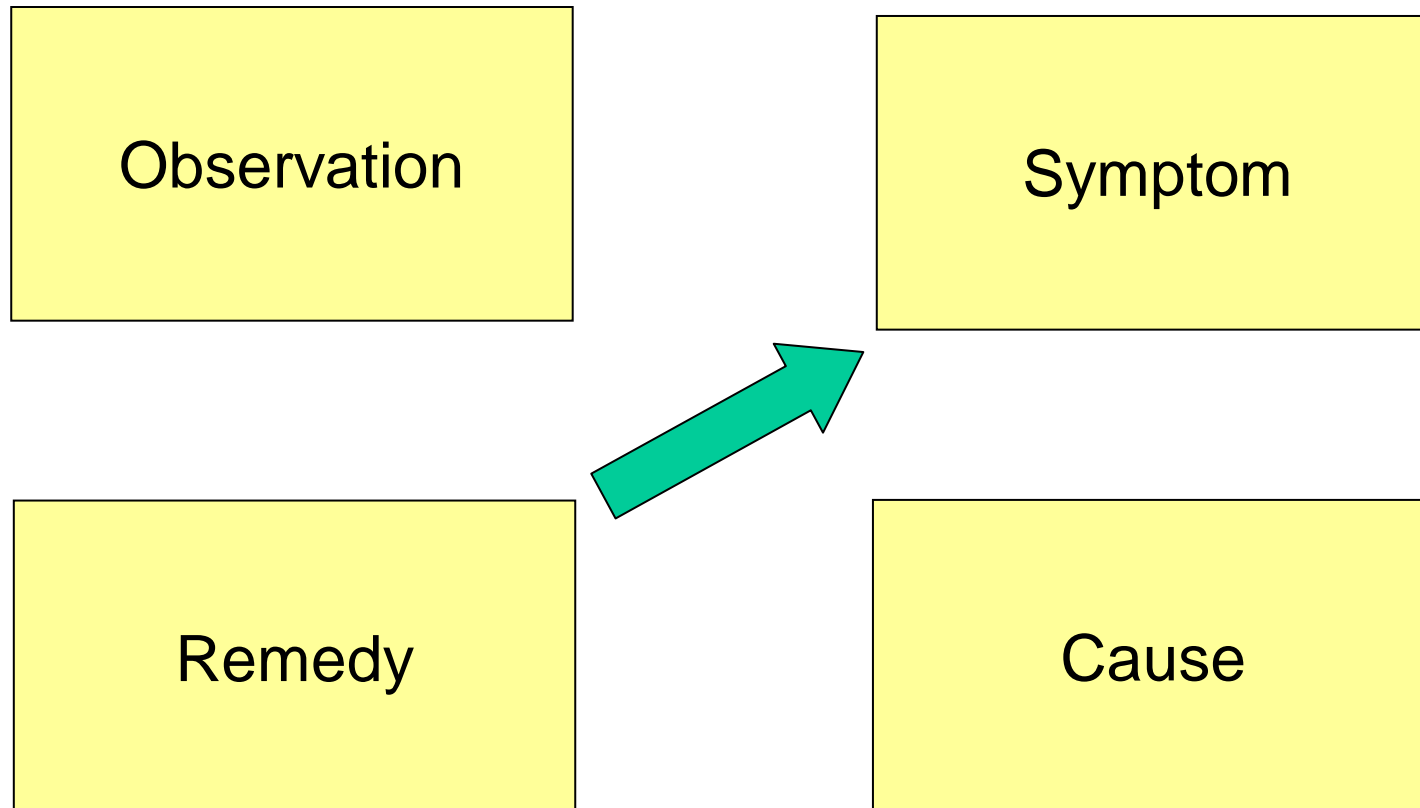
We observe symptoms not causes



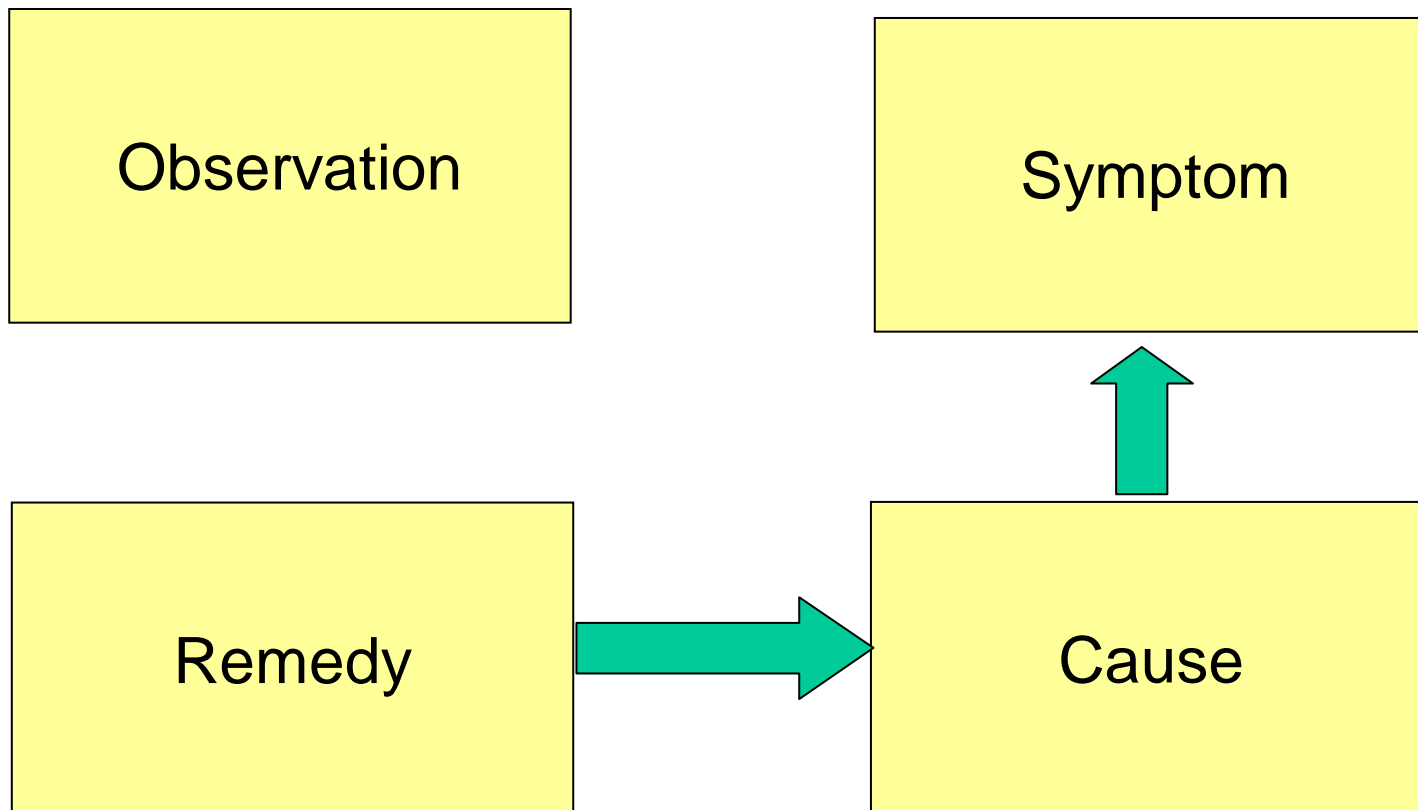
Correlation does not prove causation



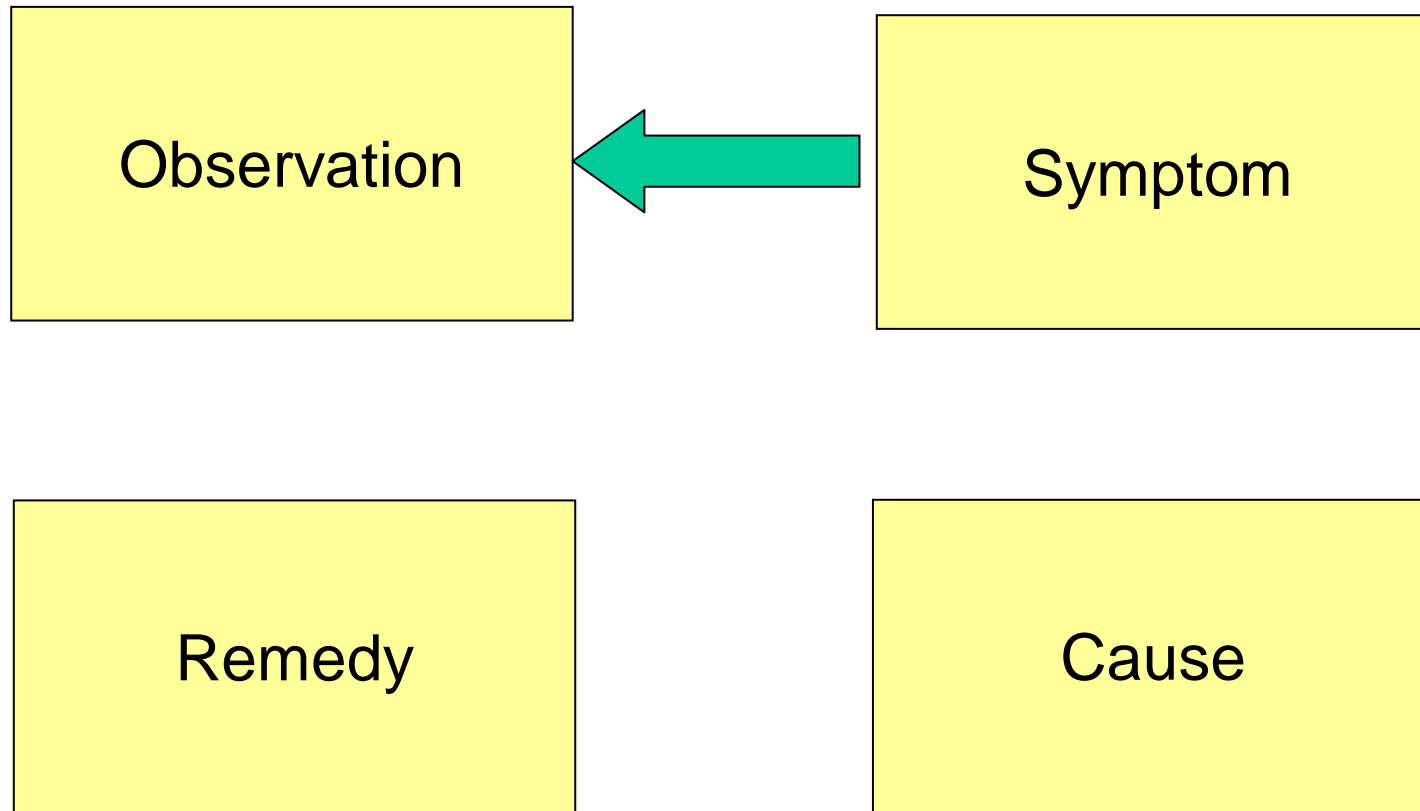
Regulation works on symptoms Better or worse?



Structural change works on cause Better or worse?



How long for remedies to work?



BAA Airports

OFFICE OF FAIR TRADING



UK Airports

360 degree feedback

BAA view

- ❑ “Common ownership has yielded significant benefits for consumers”
- ❑ We have “invested in major new facilities”
- ❑ Full terminal capacity “constrains our ability to deliver on the needs of passengers and airlines”
- ❑ “Capacity constraints, price caps and other distortions...mean that competition will not in practice materialise”

Some airline views

- ❑ “BAA’s record at Heathrow has been lamentable” – *British Airways*
- ❑ “BAA’s mismanagement of Heathrow has cost American millions of dollars” - *American Airlines*
- ❑ “Let’s face it, Heathrow is a mess, passengers continue to be stuck in long security queues at Stansted and Gatwick’s development is being held back by this over charging monopoly” - *Ryanair*

Some passenger views

- ❑ “Heathrow is appalling. I hardly ever use it” - *Oliver Johnson, the Wine Society*
- ❑ “Business people are paying a fortune and they are being treated like rubbish” - *Paul Larcey, Lafarge UK*
- ❑ “Heathrow has been turned into a horrible place” – *Terence Conran*
- ❑ “A national disgrace” *Norman Lamont on BAA*

***Out of 58 airports in Air Council
International passenger satisfaction
survey:***

- Stansted in 43rd place
- Gatwick in 49th place
- Heathrow in 56th place

ACI 2006Q1 latest available at time of study

Issues we were interested in

- Not a “natural” monopoly
- BAA has effective monopoly in SE and Scotland
- Monopoly leads to x-inefficiency, high prices, low levels of innovation
- Regulation poor substitute for competition
- CAA main focus prices – no power to make MIR
- RAB-based regulation can lead to gold plating
- Airline liberalisation beneficial to consumers and suggests possible pass through of competitive gains

But at the time study launched

- ❑ It's regulated
- ❑ And there is a bidding war on to buy the company
- ❑ We have issues with airlines
 - ❑ Surprise list of additional charges by some airlines
 - ❑ Allegations of inappropriate conversations between rivals

The timeline

25 May – 1st
Announcement

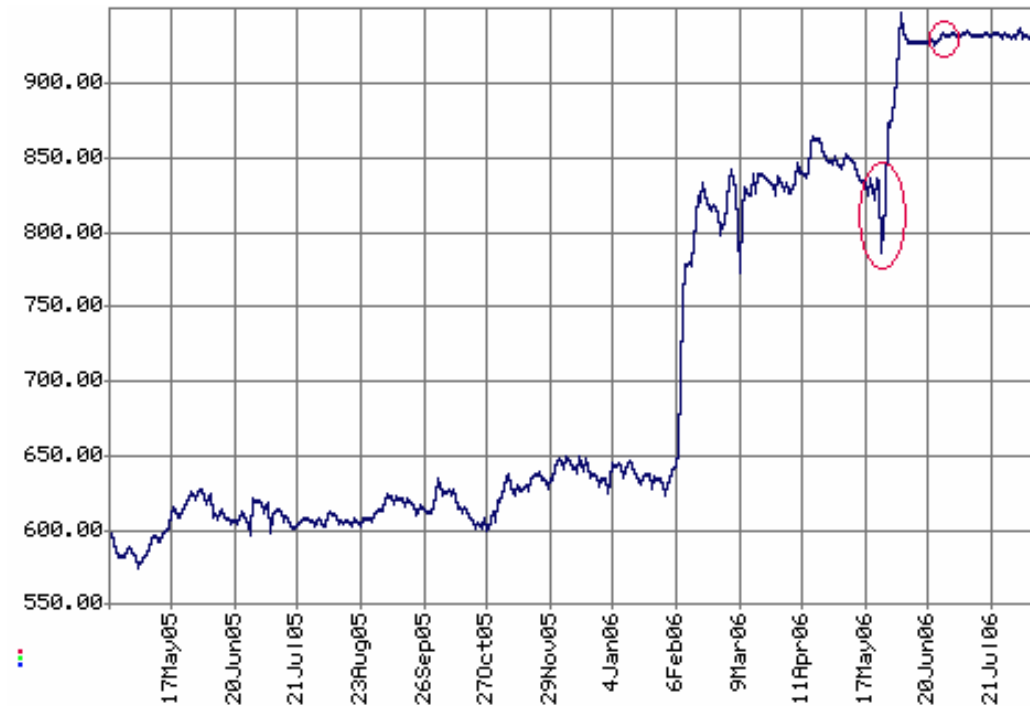
30 June – launch of
market study

12 December – Market
Study publication and
consultation on MIR

8 February – End of
consultation period

30 March - MIR

BAA plc share price



Market Definition

South East and East Anglia

- Southampton?
- Heathrow?
- The Midlands?
- Long haul versus short haul?

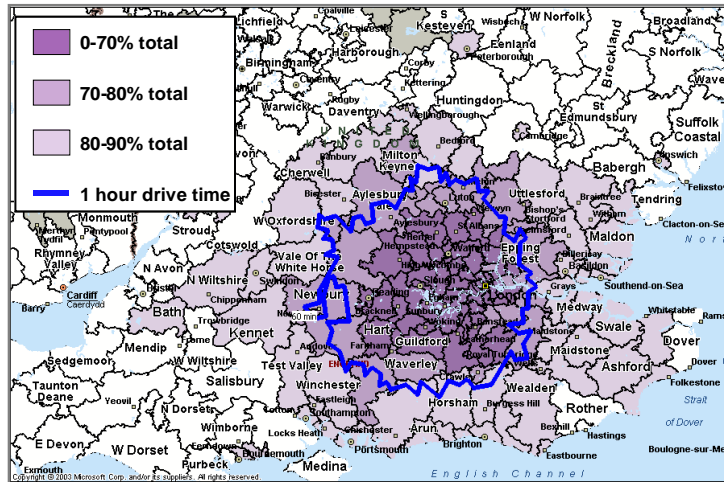
Lowland Scotland

- Prestwick – Edinburgh
- Aberdeen? Newcastle?

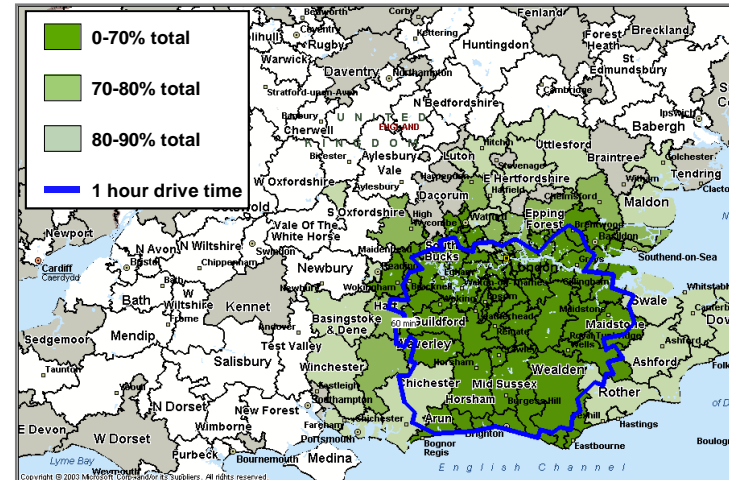


Business passengers

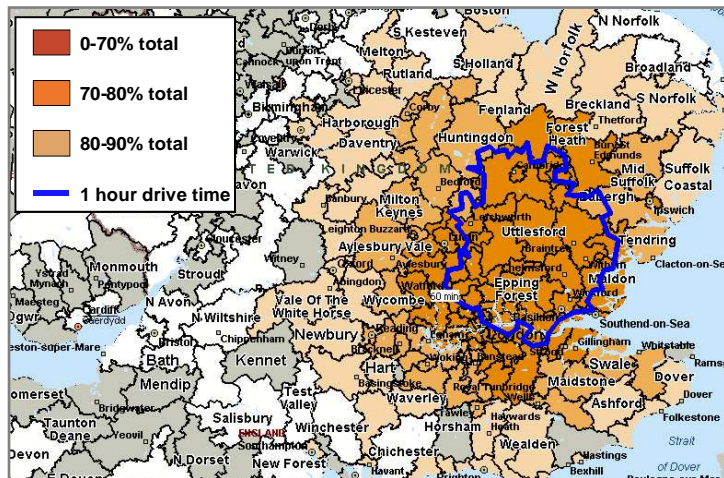
Heathrow



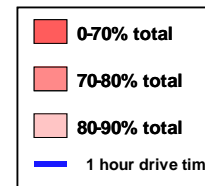
Gatwick



Stansted



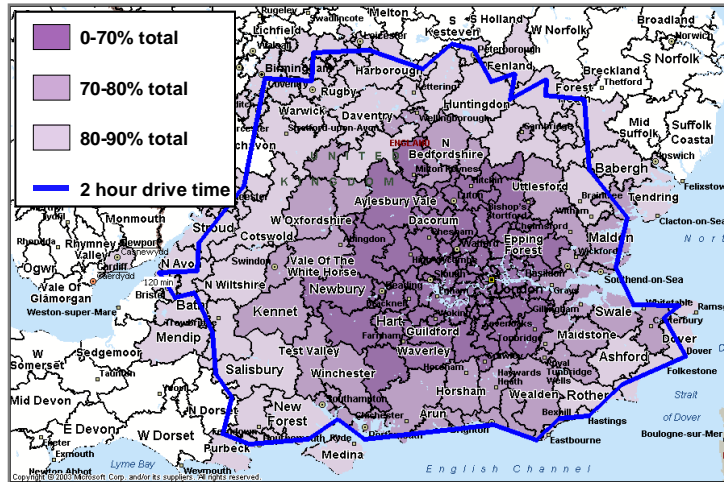
Luton



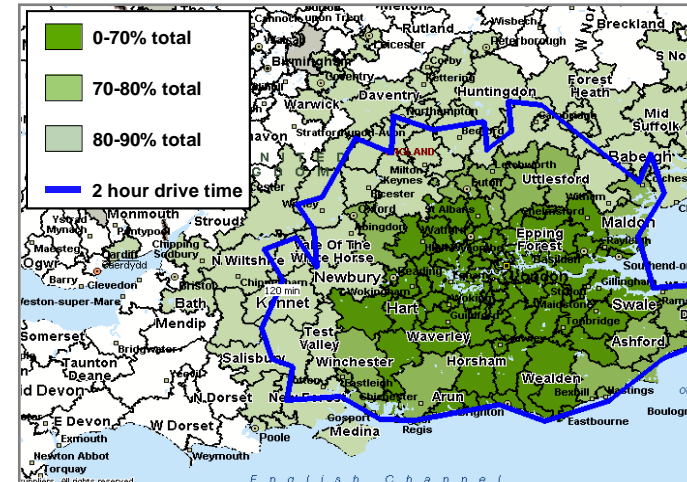
Source (all charts): 2005 CAA data, plotted using Microsoft Mappoint

Leisure passengers

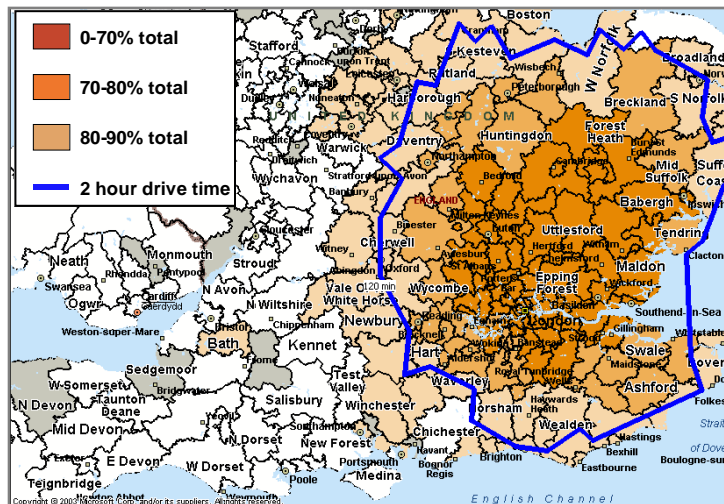
Heathrow



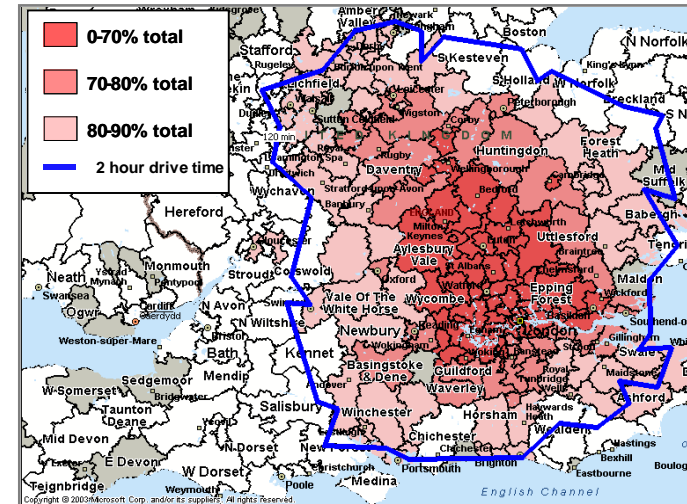
Gatwick



Stansted



Luton



Source (all charts): 2005 CAA data, plotted using Microsoft Mappoint

Reasons for referral

- ❑ **Suspicion competition is restricted, prevented or distorted**
 - ❑ Joint ownership of airports (SE and Scotland)
 - ❑ Capacity constraints and planning (SE)
 - ❑ Regulation (SE)
- ❑ **Exercise discretion to refer**
 - ❑ An important market
 - ❑ Potential clear cut remedy - divestment

South East and East Anglia

- ❑ **Short term competition – Manchester/Liverpool**
- ❑ Is it only about sharing economic rents?
- ❑ Major new investment planned
 - ❑ Investment – gold plating (easyJet, Ryanair), delays (BA, Virgin)
 - ❑ Regulation or competition to provide best incentives
 - ❑ Impact of planning/environmental restrictions
- ❑ **Constructive engagement / quality indicators**

Lowland Scotland

- ❑ **Can Edinburgh and Glasgow compete?**
- ❑ Is the price information on Prestwick misleading?
- ❑ Other issues
 - ❑ Bundling allegations
 - ❑ Investment incentives
 - ❑ Access to London esp Heathrow

Other issues raised with us

❑ Compulsory purchase powers

- ❑ Competition in commercial development

❑ Local monopoly issues

- ❑ Car rental commoditisation
- ❑ Car parks and access

❑ Security delays

- ❑ 30 August and subsequent difficulties
- ❑ Issues highlighted to BAA prior to 30 August
- ❑ Complaints ongoing (Ryanair website)

❑ Strangely less on environment



A photograph of an airport departure board. The board displays a list of flights with their scheduled times, destinations, flight numbers, and current status. The status for most flights is 'Cancelled', while one is 'Delayed' and one is 'Please wait'. The current time is shown as 13:32.

13:40	Belgrade	JU211	Cancelled
13:40	Luxembourg	LG4404	Cancelled
13:45	Porto	TP386	Delayed
13:50	Zurich	LX333	Cancelled
14:00	Paris CdG	AF1671	Cancelled
14:05	Frankfurt	LH4729	Cancelled
14:40	Prague	OK651	Cancelled
14:50	Hamburg	LH4793	Cancelled
15:05	Cologne	LH4783	Cancelled
15:20	Damascus	RB414	Please wait
15:35	Madrid	IB3179	Cancelled

Time now 13:32

Industry response

BAA – planning, regulation but not divestment

- Dispute competition assessment and market without expressing a view
- View the issue as more complicated and technical than OFT
- Invoke CAA regulation
- It's planning and regulation

Airlines – about time too

- Everything is wrong – investment, prices, efficiency, security
- Break up BAA
- Oh and significantly increase regulatory burden

Remedies

OFT did not need to reach any conclusions but...

Structural Remedies

- Examples of terminal competition – but capacity issues/safety fears
- Airport divestment is the main issue

Modernisation of regulations

- Airports Act regime/CAA powers – a license more flexible?
- Planning regime
- Extent of regulation following any structural remedies

What are we learning across studies?

- ❑ Importance of stakeholder engagement
- ❑ Need to sharpen market intelligence
- ❑ Choosing the right study in the first place – remedies is a key issue
- ❑ Make sure we follow up recommendations
- ❑ Need to evaluate impact of market interventions and learn lessons

What could you learn?

- It's not off limits because it's regulated
- We won't be deflected by attempts to over-complicate issues
- Our focus is on the interests of the consumer
- We can and will be moving quickly