Competition, Regulation and Market References – UK airports

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RPI Conference Oxford July 2007
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

- Observation
- Symptom
- Remedy
- Cause
Correlation does not prove causation

- Observation
- Symptom
- Remedy
- Cause?
Regulation works on symptoms
Better or worse?

- Observation
- Symptom
- Remedy
- Cause
Structural change works on cause
Better or worse?

Observation

Symptom

Remedy

Cause
How long for remedies to work?
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
Market Definition

South East and East Anglia

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

Lowland Scotland

Prestwick – Edinburgh
Aberdeen? Newcastle?
Source (all charts): 2005 CAA data, plotted using Microsoft Mappoint
Leisure passengers

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
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