

BAA AIRPORTS MARKET INVESTIGATION

Federation of Tour Operators: summary of hearing, 17 May 2007

1. The Federation of Tour Operators (FTO) was made up of the 13 key tour operators. They included the big four—Thomas Cook, Tui, MyTravel and First Choice, British Airways Holidays, and Kuoni—which collectively dealt with some 17 million passengers a year. Six of its members operated their own charter airlines, and member airlines that belonged to the FTO were also members of BATA. Charter flights accounted for 15 million passengers a year, approximately one-quarter of the total leisure market, many of whom would wish to fly from their local airport. Some specialist brands, particularly city break operators, also used low cost carriers.
2. Membership of FTO fell into two broad camps. Firstly there were those members who were traditional mainstream operators selling packaged holidays based on charter flights with reps and destinations. Secondly there were those operators who sold scheduled flight based holidays, generally without reps in destinations. All the big operators had specialist subsidiaries which fell into the category of selling schedule-based breaks but, broadly speaking, its members covered the entire cross-section.
3. The FTO told us that there were many issues that united its members more than divided them. On areas such as airport capacity and usage there was a remarkable level of agreement.
4. The FTO identified two main factors which determined an operator's choice of airport. Firstly the geographical convenience of the departure point and, secondly, the desired destination of the customers. From a passenger's point of view the convenience of a local airport was an important factor. Passengers tended to switch between airports only when they chose to travel to particular destinations only served, due to capacity constraints, by one or two airports.
5. The FTO had noticed a significant change in customer philosophy in relation to how they booked their holidays. Up to three or four years ago, the traditional package holiday was booked significantly in advance, with approximately 20 to 25 per cent of the total market booking up to one year in advance. However, they had recently seen a very significant shift to a much later booking pattern, with the destination becoming slightly less significant. People were picking destinations because they were available and convenient, particularly for travel on low cost carriers but also now in the rest of the holiday market.
6. The FTO had little evidence of the southern airports competing on anything except their location but partly because there was little variation between the airports in other factors at the moment. However, FTO thought it would be to the consumers' benefit if there was more competition. When flights for some destinations were served by all the major London airports, then customers had a choice, although it was expected that most people would still choose their local airport to fly from. However, the FTO saw no reason why competition for consumers on service and other differentials, whether it be convenience, access, car parking, transportation, shopping and leisure experience, could not exist as part of that journey. Competition currently existed between Stansted Airport (Stansted) and Luton Airport (Luton), because both airports were geographically convenient and there were also overlapping catchment areas between Gatwick Airport (Gatwick) and Stansted.

7. During the 1980s a number of issues, such as airport accessibility for passengers, led many airlines to move their charter flights from Stansted to Luton. This was not a huge problem, since the two airports were close to each other. The catchment areas for the charter operator tended to be either Luton or Gatwick, dependent to some extent on where passengers lived, but with a level of overlap between the two.
8. Southampton Airport (Southampton) was not viewed as a competitor to Gatwick. At present Southampton did not offer the same choice as Gatwick. It was run independently by BAA; but, although there was no feeling that BAA was not investing at Southampton, possibly an independent owner would invest more.
9. As to competition elsewhere in the UK, Manchester Airport (Manchester) had benefited over the years from being a more leisure-friendly airport, operating more routes than say Liverpool or Leeds-Bradford airports, and, due also to its location, attracted customers from a catchment area which went as wide as Scotland. Other airports within that catchment area were also now expanding in a low-cost or leisure-focused market, and building up to a critical mass of traffic that attracted more services. There was not, however, similar spare capacity to allow such competition in the South-East.
10. When operators/airlines were considering new charter routes they would pick Gatwick and Manchester as their base for departures from the South and North of England respectively. These two airports were where charter operations traditionally departed from and the operators/airlines had a reasonable chance of filling the plane with passengers. Once passengers knew they had to travel to Gatwick or Manchester to reach a particular destination, an operator/airline would expand their flights from that airport and this would help the airport to continue to grow.
11. Whereas Gatwick and Stansted could be regarded as local airports, this applied less to Heathrow. The FTO believed that Heathrow offered passengers a wide choice of destinations. Flying from Heathrow was the only way to get to 50 per cent of the world.
12. The FTO were against cross-subsidy. They did not want to see their passengers using Gatwick but paying to subsidize a new runway being built at Stansted which many of their members would not use. But joint ownership also affected the management intentions and development plans of the airports.
13. When asked about possible separate ownership of the airports, the FTO believed that at Gatwick the second runway would be the biggest single issue for the airport, making sure that it did not remain capacity constrained. At present BAA were overlooking this issue, giving priority to issues at the other two airports. This would not be the case if the airport were separately owned, and given the demand to use it.
14. The FTO were keen that regulation should continue at Gatwick even if it were in separate ownership. The market should drive investment decisions and the FTO thought that on a stand-alone basis the market would drive investment at Gatwick in an additional runway. Gatwick already had the busiest single runway in the world and the current business plan suggested that BAA were going to grow use of the runway to accommodate approximately 60 million passengers. This was implausible. One pleasing feature of Gatwick was that its airport charges were some of the lowest in the UK; but the biggest constraint the FTO faced in the South-East was the capacity constraint at Gatwick. On whether runway development could be combined with continued price regulation, the FTO noted that there was a regulatory structure at Manchester, and Manchester was charging less than the cap, yet still investing in a second runway and second terminal. The regulatory structure should not therefore be

a block to investment provided that it was managed in the right way and provided that it worked correctly.

15. The FTO found that Gatwick always fared poorest in customer satisfaction scores in questionnaires done across all of its holidays. People still used the airport because it had the capacity and the choice, but it was the poorest of all the UK airports. This was partly due to poor terminal quality, with a focus (as with most UK airports) on shopping. But it was not a robust operation, with insufficient resilience, particularly in the south terminal.
16. Other airports in the country were better able to cope because they were not operating at full capacity.
17. The FTO thought there was a point at which the whole resources of the airport were stretched to breaking point. That ranged through the whole London airports system, Gatwick and Heathrow suffering the most. There was no spare place to park an aircraft and no extra space in the terminals. This was primarily driven by available land and capacity. But there was also a need for more investment. Other issues regularly raised with BAA included the length of time it took for baggage return, the general standard of the terminals, escalators constantly out of service, and the poor standards of the toilets (although there were service level agreements in place and if BAA did not meet certain standards some rebates were given). The FTO's main customers were families with lots of baggage, so facilities to cater for families and the baggage handling facilities were important.
18. Both management focus and infrastructure were part of the problem, with the north terminal possibly having had priority over the south. It was also the FTO's view that Gatwick continued to provide such a poor service because it was a monopoly. But the FTO also told us that charter operators operated a very lean structure with a minimum number of staff which prevented them from pursuing matters with BAA as actively as other airlines, or becoming involved in the constructive engagement process with BAA.
19. The FTO said that Glasgow Airport (Glasgow) and Edinburgh Airport (Edinburgh) did have a geographical monopoly in Scotland but without this causing a great problem. For the leisure market Manchester was a competitor to Glasgow and Edinburgh because people would travel to Manchester to get their choice of destination. The main routes operating out of Scotland went to England where passengers picked up connecting flights. There were currently 92 flights a day from Scotland to London.
20. As to whether, if separately owned, new owners could do more to develop new routes, the FTO understood that Glasgow was in the process of introducing new international routes anyway. But the decision to create new routes was largely driven by the airlines or tour operators as opposed to the airport. The airport acted as a facilitator but would not usually act as the driver for such a decision. While Glasgow could encourage airlines and tour operators to operate a route, it couldn't ultimately force them to do so.
21. The FTO also told us of a new regulation about to be approved regarding how disabled people were handled at airports. Airlines were to be charged by airports on a per passenger basis. BAA had decided, against the objection of the airlines, that the service it would provide and that would be paid for by the airlines would include pushing disabled customers around the duty free shops, although the airlines themselves sold duty free on board the aircraft.