

BAA AIRPORTS MARKET INVESTIGATION

Summary of hearing with Independent Airport Park and Ride Association, 6 July 2007

1. The Independent Airport Park and Ride Association (IAPRA), which was set up in 2002, told us that it had eight members who between them had just under 50,000 car parking spaces. They were all off-airport park-and-ride operators and some also provided meet-and-greet valet parking services. IAPRA's members operated at all the UK major airports. Some of its members acted, like Holiday Extras, as consolidators in the market as agents for selling not just their own product but other people's products.
2. IAPRA was formed for two reasons. Firstly to drive up standards of safety, security, customer service and to encourage consumer choice in off-airport long-term parking, and secondly to protect the interests of its members at a time when it began to feel that the industry was under attack by different airport authorities. IAPRA described the market in which its members principally competed as authorized long-term on and off-airport parking. As IAPRA members' car parks were off-airport, most customers were transported between the car park and the airport, although a small proportion used a valet parking service, which involved customers' vehicles being collected from and returned to them at the airport.
3. IAPRA told us that the majority of passengers travelled to the airport by car. They were either dropped off at a terminal by family or friends (kiss-and-fly), by a taxi or mini cabs, or used the short-stay parking. A smaller proportion of passengers chose to take their car and park in the long-stay car park (for use by cars being left longer than 24 hours). People who used long-stay car parks included those coming from locations where public transport simply was not available particularly at the times of day and night that they were travelling, or was not practicable.
4. IAPRA thought it improbable that major new public transport links would be developed in the near future and therefore the amount of people using airport parking facilities was unlikely to shrink. One example was Gatwick Airport (Gatwick) where the public transport share had been around 30 per cent for the last 10 or 12 years, despite the Gatwick Express. BAA's target with Crawley Borough and the councils was a 40 per cent public transport share and, realistically, IAPRA could not see that target being met.
5. There is a need for customer choice in airport parking, however, the planning regime did not usually permit new off-airport car parks and BAA attempts to ensure that all new airport parking is on airport.
6. IAPRA was concerned that current security measures provided BAA with the opportunity to make life much more difficult for kiss-and-fly. In fact BAA airports were among the first to force passengers to use short-stay car parks and pay charges for pick ups. This provided BAA with a new source of revenue. A meet-and-greet service where vehicles were collected or returned in a short-stay car park was not a premium service that customers required.

7. BAA could use the same pretext to direct off-airport valet parking to use short-term car parks and pay the same fee for returning customers vehicles.
8. This had happened at Edinburgh Airport, where IAPRA's members were expected to use the short-stay car park for its meet-and-greet operations. They also had to pay the car park fee for the collection and return of customers' vehicles. BAA nonetheless had its own valet parking reception facility, which was right by the terminal door, that IAPRA were expected to compete with. This inhibited consumer choice and discriminated against IAPRA as an independent operator. The second-rate facilities which BAA designated for use by off-airport operators and their customers as well as the new charges being levied meant that they could no longer compete effectively with BAA's own valet parking services and consumer choice would be lost.
9. Similarly, at Edinburgh, the bus stop for BAA's on airport car park operators was right by the terminal, whilst IAPRA's members were required to use stances in a coach park at least 150 yards away. This allocation for secondary facilities for use by competitors had also happened at Gatwick. BAA had allowed both its on- and off-airport courtesy buses to remain at the departure level at the South Terminal, and had forced IAPRA members to do both drop-offs and pick-ups in a more congested area at the level below. Such arrangements gave BAA the commercial advantage and invariably gave it access to the more convenient facilities.
10. At Newcastle Airport, an IAPRA member whose coaches were historically allowed pick-up and drop off right outside the terminal had been forced to accept use of two spaces in the short-term car park some distance from the terminal. The charges which the airport operator had proposed for continued use of facilities in front of the terminal were prohibitive and the charge agreed for use of designated spaces in the short-term car park whilst acceptable were based on the average revenue per space in the short-stay car park. This was a worrying precedent for IAPRA because if they were forced to start operating in the short-stay car parks at Heathrow Airport (Heathrow), the opportunity cost would be huge and probably make the business significantly less viable, if viable at all.
11. IAPRA had concerns regarding BAA's adherence to the ruling in MMC2, relating to Gatwick and other BAA airports, that the charges for facilities for off-airport car park operators should be based on cost recovery with appropriate returns for investment and profit margin. However, more often than not BAA would not be transparent and disclose its cost base and anticipated revenue, or, if they disclosed something, they would not answer questions on it.
12. All of the parking for Terminal 5 was allocated to BAA on-airport and none of it was to go off-airport. Further, whilst BAA had consulted with a number of parties on the allocation of forecourt facilities at T5 they had excluded their off-airport car parking competitors from that consultation.
13. IAPRA believed that BAA was trying to improve the customer experience and customer service for customers that used its car parks, by providing them with facilities as close as possible to the terminal buildings. However, IAPRA's customers, who were also airport users, were usually allocated secondary facilities that were much further away from the terminal buildings.
14. There was another example of discrimination at Heathrow when BAA was refurbishing Terminal 3. During the period of the works IAPRA's members were not allowed to drop off and pick up their customers flying from Terminal 3 at that Terminal; however, BAA's on-airport car park operators were allowed to continue to drop off and pick up at the Terminal.

15. Car parking could amount, certainly at regional airports, to up to 50 per cent of the airport operators' commercial revenues. Parking was an absolutely critical source of revenue and IAPRA were concerned that airport operators would attempt to levy additional charges on its members for security, safety, congestion and traffic control to make off-airport car parks less competitive and grab a greater share of airport parking for their own car parks.
16. BAA currently charged IAPRA members a facility fee. Such fees had been generally negotiated to the best of IAPRA's ability on the basis of the cost of providing the facility in terms of signage, etc and did not include infrastructure costs of roads and so on. The resultant charge was generally acceptable. If, however, charges to IAPRA members were to mirror the sort of charges that BAA were now charging for kiss-and-fly, then IAPRA would experience a huge leap in cost. IAPRA considered this would be discriminatory and anti-competitive; it would not encourage consumer choice nor keep parking charges down.
17. IAPRA told us that BAA currently earned a management fee from its car parking concessionaires and that there were different kinds of arrangements according to the tenders. However, BAA retained the bulk of the income. Therefore, if BAA started to charge its concessionaire operator a fee per movement, it would just be swapping a management fee for a courtesy bus charge. It would be unfair if IAPRA's customers had to pay an access fee and BAA's customers did not.
18. IAPRA believed that it was becoming increasingly difficult, if not impossible, to obtain permissions for off-airport car parking for a variety of reasons. The planning regime at most airports was increasingly difficult. For some airports, like Stansted, there was a blanket provision against any off-airport parking. At places with planning policies like Gatwick it was very difficult to obtain consent for new off-airport parking spaces. It had proved impossible for anyone, other than IAPRA members on existing sites, to gain consent for additional off-airport parking during the last five years.
19. IAPRA members wished to grow their businesses but recent changes in the marketplace and BAA's pricing behaviour had caused members concern.
20. BAA was acquiring off-airport car parks. BAA had obtained the lease of an operation run by NCP at an off-airport car park at Edinburgh and had also applied for consent at Southampton for an off-airport car park. At Heathrow BAA had recently developed off-airport parking and now operated a car park called Economy Parking and more recently had opened up Courtlands on the north side of the airport. Glasgow was the only BAA airport that was surrounded not by countryside but by industrial development. It was no surprise that that was where there was the most consumer choice and the most off-airport car parking. BAA was definitely interested in building market share.
21. One in four of all leisure passengers used airport parking and IAPRA were concerned that in the future those passengers would not have any real substantive choice of the provider with whom they could park their car.
22. IAPRA told us that a consumer would generally assume that on-airport parking was more convenient but they might be wrong. On-airport parking would not necessarily give a passenger a quicker trip to the airport. There was not always much difference in travel times for on- and off-airport parking.
23. To compete in the car parking market a competitor had to bring passengers on to the airport. Access to the forecourt facilities was essential and competitors had no choice but to deal with BAA.

24. Constraints on developing new off-airport independent car parks had led to a growing number of illegal operators of one sort or another around all the major airports, which was not in the consumer interest. For example, at Gatwick, the council's figures suggested that 15 per cent of the total cars counted were parked illegally. IAPRA suggested that the planning regime for enforcement was not very effective and airport authorities, notably BAA, were not encouraging that to change.
25. IAPRA told us that at Gatwick the local planning policy required all additional car parking to be on-airport. This was reflected in the airport's master plan. One example included in their submission was of a development called Gatwick Green, which was just outside the airport boundary. In the master plan this area was shown as potential land for airport expansion. There was an independent developer who wanted to develop it, but BAA wanted to compulsorily acquire the land. In planning terms it did not matter whether the operator was BAA or an independent operator. BAA had produced a master plan outlining the land it would require for a future second runway and it included not only the extra land for the terminal and for airside facilities but also for as much airport-related commercial activity as it could because if it could acquire that land for agricultural value it would make a huge profit and increase its dominance of various airport-related markets, including car parking. BAA had a dominant control of supply, it also controlled prices, and IAPRA believed that this was true of every BAA airport.
26. With regard to the compulsory purchase powers IAPRA suggested that a limit be placed on BAA's market share, and that the planning process should recognize that limit. Currently BAA could achieve up to 90 per cent of market share. If BAA's share of airport parking was capped and the appropriate planning policy guidance notes were in place then there would be the opportunity for consumer choice to be fostered allowing independent operators to obtain consents for new airport parking spaces.
27. Another solution, where BAA exceeded an appropriate market share, would be to allow BAA to own the land but be forced into granting long-term leases that were not turnover related and did not give BAA the right to control prices or operators.
28. IAPRA believed that the 9,000 proposed car parking spaces for T5 at Heathrow had been safeguarded for BAA. However, BAA had increased its share of the Heathrow market from 53 to 66 per cent. Possible plans to develop the site of Purple Parking, an IAPRA member, would result in the loss of 7,000 or 8,000 spaces. This would increase BAA's market share to 83 per cent. If no new off-airport parking was permitted around Heathrow this would be detrimental to prices and choice. IAPRA had yet to be consulted on the proposed arrangements at Terminal 5 and did not know whether BAA would put up barriers to prevent IAPRA members' buses accessing the terminal forecourt. IAPRA was concerned about the impact of the planning regime on choice of supply and prices at both Heathrow and Gatwick.
29. IAPRA had concerns regarding BAA's purchase and sale of land, including land for on-airport hotels and other commercial activities. IAPRA were opposed to commercial operators obtaining an exceptional profit through being able to buy land cheaply under compulsory purchase powers. Once land had been designated for airport expansion it was safeguarded against any other development. City Place at Gatwick was on land which BAA had obtained on privatization and which could have been used for parking, hotels or other airport related development. Instead City Place was developed by BAA as an off-airport business campus from which BAA made an enormous amount of money. Now that City Place was no longer available for airport expansion, BAA wished to buy other land cheaply for airport expansion. Rather than using compulsory purchase powers to acquire as much additional land as possible, BAA should have retained land that had previously been acquired for airport

purposes and minimized the additional land it needed to acquire using compulsory purchase powers.

30. Under compulsory purchase powers land could be acquired at current use value unless the owner could obtain a certificate of alternative development to show it could have obtained consent for a more valuable use other than that for which the acquiring authority was buying. If, however, the local plan required all extra parking to be on-airport, planning policy would only allow the land to be used for car parking if the airport boundary was expanded to encompass the owner's land. Accordingly, for anyone other than the airport operator the land only had agricultural value, whereas for the airport operator it had commercial value for airport parking.
31. At Stansted BAA had a total monopoly of all authorized parking and there was no authorized off-airport parking. There were three styles of car park, long-stay, mid-stay and a short-stay; the short-stay being quite small and very expensive. Over the last couple of years, prices were higher at Stansted for long-stay parking than at any other BAA airport or Luton. They were, indeed, the highest of all the London car parks. As unauthorized car parking increased, the price for BAA's car parks has dropped and did so by 20 per cent in the last year.
32. Car parking prices at Gatwick had risen over the last few years. However, BAA had recently introduced yield pricing at a number of their airports, which mimicked low-cost airline pricing. Although in the short term this might be to the advantage of the consumer, IAPRA were concerned that BAA were dumping prices to push out competition.
33. BAA was competing in the short term and this was good news for the consumer, but if the intention was to actually stave off competition at the same time as local authorities were trying to enforce against illegal car parking, ultimately BAA would have driven away the competition with the help of the planners and predatory prices. If BAA decided to drop its prices during the winter period, when everyone had spare capacity, then although this was good for the consumer, in the long term it would drive out competition.
34. Traditionally the charges for the BAA off-airport car parks at Gatwick were below those on-airport; however, once their off-airport car parks filled up BAA had been known to reduce the price for the on-airport car parks. BAA viewed it as one pot and tried to maximize the yield. Whilst BAA did have separate brands for its car parks it did not appear to price them differently according to occupancy of each car park, instead it treated them as one pot, and set the pricing for all those car parks according to their overall occupancy.
35. At Heathrow BAA had segmented business parks that were at one price point. They also had Parking Express, a long-stay car park, which was at a lower price point, and two off-airport car parks, which were lower still. Their business parks were priced almost identically most of the time. They had one for Terminal 4 and one that served Terminals 1, 2 and 3. IAPRA thought parking for Terminal 5 would be priced somewhat higher, since BAA held the monopoly on that facility.
36. IAPRA were concerned about BAA's ability to make charges for drop-off and pick-up facilities that were deliberately damaging in financial terms to IAPRA members' businesses and would force members to put their prices up and to be less competitive. IAPRA were concerned that the same argument might not apply to taxi drivers and their customers.

37. Since the Competition Commission's 1991 review a number of airport operators sought to impose turnover-based licence fees on park and ride operators. IAPRA had an objection to this as an independent operator that was not parking on airport land and was not trading on airport forecourts to turnover-related fees. As a matter of principle, IAPRA did not think that a turnover-related fee was appropriate. Where turnover charges had been proposed, they had (a) been too high; and (b) had not been supported by a transparent cost statement. IAPRA did not have a problem with paying fair and sensible facilities charges, but they did feel that any airport authority, not just BAA, should be obliged to base those upon the incremental cost of the facilities, which was to say not including roads unless they had to create brand new roads just for IAPRA. But the incremental cost of facilities, for example, signage, extra lighting, shelters, would be just about justifiable. IAPRA needed to be shown the costs. If there was capital investment, a formulaic limited cap on their return on investment needed to be applied.
38. IAPRA had asked BAA to withdraw car parking from the list of services protected by its trademarks. BAA had refused and was currently intending to protect its intellectual property. IAPRA's main objection was that its members had been promoting Heathrow parking and Gatwick parking in its promotional literature for 30 years. However if BAA retained its trademarks with car parking as a protected category, then technically it could prevent IAPRA members from promoting their car parks as Heathrow Airport Parking or Edinburgh Parking. This could have a disastrous effect on its Internet sales since at present if someone typed in Heathrow parking IAPRA members' sites would appear.
39. IAPRA believed that the CAA was tasked with advancing the aviation industry in the UK and this was its driving force rather than ensuring that there was competition on airport-related services.
40. IAPRA said that the rate of return that BAA was entitled to on its capital investment was regulated at regulated airports but not otherwise. Although IAPRA said that the basis of cost should be expenditure including a rate of return on capital, BAA would not provide IAPRA with the figures and so they could not work out what the rate of return was. Theoretically BAA might be able to get away with more at unregulated airports because it could recover a higher rate of return, but it seemed to be trying to charge as much as it could in any event. IAPRA thought that BAA was trying to put opportunity costs into the cost of capital assets so that they could argue that long-term car parking had an opportunity cost for short-term car parking which would give a much higher capital value, which would then enable it to recover much higher car parking charges.
41. IAPRA believed that Edinburgh and Glasgow Airports were in the same geographic markets. But Edinburgh Airport competed with Newcastle Airport in a way that Glasgow Airport did not and Glasgow Airport competed with Manchester Airport in a way that Edinburgh did not.
42. Inflation was a key driver of the park and ride business. IAPRA were better off with higher prices, as long as supply and demand allowed good occupancy rates to be achieved. During 2002 to 2005 there were overall increases of 9 per cent and then there was a fall in 2005/06. IAPRA expected the airports to raise and drop their prices as demand required. When there was spare capacity in the car parks BAA dropped the price to encourage people to use them. They also expected BAA to vary the price to encourage more people to switch from kiss-and-fly to use of parking because it could increase its market share. Once BAA had consolidated that position and gained a greater market share, it would increase its prices again.

43. Finally, those IAPRA members that were also consolidators were concerned that as BAA was in a strong position in terms of supply, this also put them in a strong position to negotiate the terms on which consolidators could sell BAA products in the marketplace. Consolidators needed to be able to sell BAA's on-airport spaces at Gatwick, Heathrow and, in particular, Stansted. BAA used this commercial imperative and its terms for appointing agents to encourage consolidators to sell more of its product and less of other people's product. As BAA was the only supplier in some areas, the commission rate IAPRA received there was lower. Although it was an advantage for a consolidator to be able to sell BAA's product, they would really like BAA to be even-handed with all consolidators and let the consumer decide how much they wanted of each product and from whom. But if they were encouraged to sell more of BAA's product, then they had to do what was right for their business.