

Costs and loss of benefits resulting from divestiture remedy

Introduction

1. BAA's assessment of the costs of divestiture and benefits of common ownership fall into three categories:
 - (a) the costs of separation, which BAA has estimated to be £106 million for the divestiture of Gatwick, Stansted and Glasgow excluding any pension cost;
 - (b) economies of scale, the loss of which as a result of the divestiture of the above three airports BAA has estimated to be £100 million a year; and
 - (c) miscellaneous un-quantified benefits of common ownership, relating principally to planning and capacity expansion.

2. We examine each of these categories in turn in the following sections. The inferences to be drawn from this examination are considered in the main body of the Provisional Decision on Remedies where item (a) is considered as a cost of the proposed remedies and items (b) and (c) are considered as prospective relevant customer benefits.

3. BAA provided us with several submissions on both the economies of scale and the costs of divestiture, and two reports commissioned by BAA from consultants:
 - (a) regulatory pricing: high level impact review prepared by Deloitte & Touche LLP (Deloitte) in October 2005; and
 - (b) Project Flight: review of the economies of scale from operating the south and east airports under common ownership prepared by PricewaterhouseCoopers LLP (PwC) in February 2007.

Costs of separation

4. BAA's latest submission on the costs of separation showed that there would be one-off costs of divestment of approximately £106 million in total for the three airports proposed for divestiture (£[redacted] including the pension costs). These costs fall into four categories: IT implementation charges, pension costs, design costs and general costs.¹ Table 1 summarizes BAA's estimates and shows our proposed adjustments, the basis for which is set out in the following paragraphs:

TABLE 1 Analysis of the cost of separation

	<i>£ million</i>			
	<i>Gatwick</i>	<i>Stansted</i>	<i>Glasgow</i>	<i>Total</i>
IT one-off comprising:				
Design costs	27.6	17.2	8.6	53.4
System replication	6.0	-	-	6.0
	21.6	17.2	8.6	47.4
Pensions	[redacted]	[redacted]	[redacted]	[redacted]
Other	16.9	27.6	8.2	52.7
Design Impact	7.9	7.6	3.2	18.7
Including IT	-	15.0	-	15.0
General cost of sale	9.0	5.0	5.0	19.0
Total—including pension costs	[redacted]	[redacted]	[redacted]	[redacted]
Total	44.5	44.8	16.8	106.1
CC adjusted total (per Table 2)	27.6	23.0	12.2	62.7

Source: BAA, CC analysis.

IT implementation charges

5. These costs include:
- (a) designing separate IT system for Gatwick and the rest of BAA excluding Gatwick (£6 million); and
 - (b) costs of replicating the IT systems and capabilities at Gatwick, Stansted and Glasgow (£47 million). The Gatwick and Stansted costs are taken from the PwC report and the Glasgow costs are taken to be 50 per cent of Stansted
6. We believe that the design costs of £6 million should be allocated between the airports.

¹[redacted]

Pension costs

7. BAA submitted to us that a statutory payment under section 75 of the Pensions Act 1995 (as amended) may become due on the sale of Gatwick (or Stansted) but subsequently advised us, through the Government Actuary's Department who were providing us with advice, that no section 75 payment as such would become payable on divestiture. However as part of the refinancing arrangements which BAA agreed in July 2008 a payment may become due from BAA to the BAA Pension Scheme on the divestiture of Gatwick (or Stansted).
8. [X]
9. We note that the agreement does not change the overall pension fund liability to pension fund members but crystallizes a cash contribution (calculated on a conservative basis) from BAA in place of potential ongoing contributions from BAA. We note therefore that the total liability represents a rephasing of cash flow rather than a relevant cost of divestiture. To the extent that the liability exceeds the likely present value of future contributions from the parent then this would improve the overall funding of the pension fund and should be reflected in a higher value to be received from the airport sale.
10. [X]
11. In view of the above considerations, we do not consider that the pension liability should be considered to be a relevant cost of the divestiture remedy.

Design

12. The largest part of the Design costs is IT severance costs (£15 million) and Centralized Airport Costs severance costs (£9.3 million). In addition there is a small

amount (£300,000) to cover building dilapidation at the shared services centre in Glasgow.

13. BAA estimated the severance costs for the Centralized Airport Service to be £[redacted] per employee. [redacted]. However, for the Business Support Centre (included in the Design Impact costs) BAA assumed that severance costs would be around £[redacted] per person.
14. We requested further information and calculations but the estimates of £[redacted] and £[redacted] per employee were high-level projections and no further calculations had been undertaken—BAA told us that these costs were ‘not substantiated by detailed analysis’ and that they had revised down the £[redacted] costs to £[redacted] (which would reduce the figure by another £[redacted] million).
15. The IT severance costs relate to the sale of the final airport (BAA has assumed this would be Stansted). We would expect the costs to be allocated across the companies being sold in determining the costs of divestment.
16. We note that the costs set out under IT include the costs of hiring IT staff to run the separated businesses’ IT systems. [redacted]
17. We consider that the IT redundancy costs should be excluded and there is little justification for the remainder. Given the lack of substantiation it would seem unreasonable to allow more than half of the remainder as a realistic estimate. The effect of these changes is a reduction of £20 million.

General costs

18. The general costs consist of HR costs of £4 million and ‘other’ costs of £15 million:

(a) the HR costs relate to the costs of setting up a project team to undertake the sale of the airports; and

(b) the other costs are estimates of the fees which will be incurred during the sale of the three airports.

19. BAA informed us that ‘no further breakdown of costs in this category was carried out. In reality BAA would expect the sale costs for Gatwick and Stansted to be higher than for Glasgow (or Edinburgh)’.

20. These costs were high-level projections by BAA and no detailed calculations or substantiation were provided. Although we accept that some general sale costs will occur, we have seen no evidence to justify the level of BAA’s proposed costs.

Conclusion

21. We set out in Table 2 our estimate of the maximum likely costs of divestiture based on BAA’s submission.

TABLE 2 CC estimate of the maximum costs of separation

	<i>£ million</i>			
	<i>Gatwick</i>	<i>Stansted</i>	<i>Glasgow</i>	<i>Total</i>
IT one-off	23.6	19.9	10.6	53.4
comprising:				
Design costs	2.0	2.0	2.0	6.0
System replication	21.6	17.2	8.6	47.4
Other (Design Impact)	4.0	3.8	1.6	9.4
CC adjusted total	27.6	23.0	12.2	62.8

Source: BAA, CC analysis.

22. We also set out in Table 3 these costs on a per passenger basis to understand the net benefits that would need to occur as a result of divestiture to offset the costs of divestiture (the net benefits of competition are net of any relevant customer benefits that would arise from continuing common ownership). We considered these both on

the assumption that benefits would only accrue to the passengers of the divested airport, which we considered a restrictive basis for passengers benefiting from increased rivalry, and on the basis that these benefits would accrue to the passengers of Stansted, Gatwick and the non-transfer passengers of Heathrow, albeit these benefits may accrue unevenly to this extended pool of passengers.

TABLE 3 Required net benefits per passenger to offset costs of divestiture of Gatwick and Stansted airport

	<i>Gatwick</i>	<i>Stansted</i>
Passengers -2009/10 forecast million	36.6	21.5
Total Revenue per passenger—2009/10 forecast	£11.1	£11.4
Costs of divestiture:	<i>£m</i>	<i>£m</i>
1. CC estimate of relevant costs	27.6	23.0
2. BAA total costs (excl pensions)	44.5	44.8
Required annual net benefit per passenger (real):-	<i>Pence per pax</i>	<i>Pence per pax</i>
A. Including benefits to passengers at divested airport only		
1. CC estimate of relevant costs	7p	9p
2. BAA total costs (excl pensions)	11p	17p
B. Including benefits to passengers at divested airports and Heathrow non transfer passengers		
1. CC estimate of relevant costs	2p	2p
2. BAA total costs (excl pensions)	4p	4p

Assumptions

Analysis horizon—30 years from 3/10.

Customer numbers—per CC Q5 forecasts, Heathrow non transfer passengers = 2/3 of CC Q5 forecast (ie 49 million).

Growth in customer numbers—assume conservatively Gatwick and Heathrow 2 per cent a year for 10 years then flat thereafter, Stansted 4 per cent per annum for 10 years then flat thereafter.

Benefit build up—assume starts at 30 per cent of mature rate in year 1 then builds up by 10 per cent a year to reach 100 per cent in year 8.

Real discount rate of 8 per cent.

Definition

Net benefits are benefits arising from competition resulting from divestiture net of any relevant customer benefits foregone through removing common ownership. These do not take into account any economies of scale as described in the following section.

Source: Costs per BAA submission and CC analysis.

23. Our analysis indicates that net benefits of between 2p and 9p per passenger would need to occur at Stansted and between 2p and 7p per passenger at Gatwick to equal our estimate of the likely maximum costs of divestiture of each of these airports.

Economies of scale

24. BAA submitted that the economies of scale associated with operating the airports under common ownership are in the region of £100 million a year, on the following assumptions:

- operating expenditure (opex) of approximately £40 million;
- Retail ([~~£~~]), £4 million;
- capital expenditure, £40 million;
- additional impact of Supply Chain, approximately £15 million; and
- additional impact of Group functions, £2 million.

These figures are based on the PwC report commissioned by BAA, which generally used assumptions provided by BAA as the basis of their calculations rather than being substantiated by any independent benchmarking or other forms of external empirical evidence.

25. In the CC's regulatory reviews of Gatwick, Heathrow and Stansted we found a lack of benchmarking, scope for opex efficiency savings and poor capital efficiency in BAA's performance which would offset claimed benefits from common ownership.
26. We note that a number of airlines have submitted that there may in fact be negative economies arising from BAA's common ownership of the airports.² BA told us that it 'did not see a case for arguing that there would be a loss of synergies as a result of divestment. If anything, divestment could reduce some duplication of management (eg under the current structure each airport had its own management which was then duplicated at group level)'. In addition it believed that 'it might drive better bargains with suppliers of property services at some of the airports than BAA, despite the smaller scale of BA's purchases'.³

Opex

27. BAA identified opex savings of £37–43 million a year from economies of common ownership. These are broken down as follows:

²easyJet hearing summary 10 Oct 2008, paragraph 11; Virgin Atlantic hearing summary 17 Oct 2008, paragraph 15.

³BA hearing summary 10 Oct 2008, paragraph 16.

TABLE 4 **BAA-submitted economies of scale**

	<i>£ million</i>	
	<i>Minimum</i>	<i>Maximum</i>
Supply chain	2	5
Rent and rates	2	2
Remaining corporate office costs	-1	-1
IT	29	29
Insurance	4	5
BSC	<u>1</u>	<u>3</u>
	<u>37</u>	<u>43</u>

Source: BAA.

Supply chain

28. Both the PwC and Deloitte reports address economies of scale savings relating to supply chain (PwC estimated £2–5 million and Deloitte estimated £13.3 million for both capex and opex). There may also be some double-counting in respect of supply chain savings generally and opex savings as a result of economies of scale.
29. PwC questioned the assumption that the stand-alone airports would not benefit from economies of scale since it stated ‘the scale of purchasing at individual airports is sufficiently large that scale benefits would be achieved, even if the combined volumes of the three airports were not available to an individual airport’. PwC also noted that a number of contracts were, at that time, fragmented and therefore did not benefit from joint procurement in any case.

Rent and rates

30. BAA currently has a centralized team responsible for negotiating rates with local authorities; it told us that as stand-alone entities Gatwick and Stansted could not attract leading expertise in this area and, as a consequence, the opex cost would increase.
31. PwC considered that the economies of scale may have been overstated by BAA and suggested that the airports could make consultancy arrangements with suitably

experienced individuals to negotiate rates on their behalf. PwC suggested a £1 million reduction to BAA's claimed economies of scale as a sensitivity but noted that there was little or no support for BAA's claimed economies of scale.

32. We also note that PwC's detailed Appendix 3 shows that the savings are £700,000 for Gatwick (rounded up to £1 million) and £507,000 for Stansted (also rounded up to £1 million), suggesting that BAA's estimated economies of scale savings of £2 million were actually closer to £1 million in any event.

IT

33. PwC's report suggested that a number of BAA's assumptions required further work. In particular PwC noted that BAA's estimates of IT diseconomies of scale caused by the potential divestment of Gatwick and Stansted were 'a higher cost than would be expected if fit for purpose IT systems, based on stand-alone needs' were to be put in place at Gatwick and Stansted. PwC concluded 'the IT costs included in this Phase 1 assessment are considered to be the maximum amount of Economies of Scale that would result from putting in place the IT systems and systems for Gatwick and Stansted to operate on a stand-alone basis'.
34. BAA's estimates were based on the assumption that Gatwick and Stansted would put in place exactly the same systems as currently used by the group and that there would be no period of handover of systems. PwC considered both assumptions resulted in higher IT economies of scale than would otherwise occur. In particular, PwC considered that certain systems would not be required by either Gatwick or Stansted as stand-alone airports.
35. PwC's assessment of the impact of further Phase 2 work was that IT costs would potentially have either a medium (£5-15 million) or large (greater than £15 million)

decrease in the economies of scale envisaged by management. This would suggest that BAA's projected opex economies of scale may be overstated by £15 million or more.

Insurance

36. BAA's estimates of the economies of scale are based on insurance estimates by the current brokers responsible for 75 per cent of insurance spend. PwC reviewed the estimates and expressed their satisfaction that the economies of scale appeared reasonable.

BSC

37. The BSC is a shared service centre, based in Glasgow, which undertakes some HR, finance and IT functions for the BAA group. If Gatwick and Stansted were to be stand-alone airports BAA told us that these roles would be transferred back to the airports or potentially outsourced. PwC considered that the rationale and supporting calculations provided by BAA gave some support to the claimed economies of scale although BAA's review was limited.

Retail ([REDACTED])

38. Deloitte stated that 'there is currently a significant benefit to the Group as a result of the increased bargaining power by negotiating [REDACTED] concession rentals on a bulk basis'.
39. BAA's assumption that Gatwick and Stansted as stand-alone entities could not negotiate equivalent concession rentals without the purchasing power of Heathrow in October 2005 appears unusual given that [REDACTED].

40. Nevertheless, neither BAA nor Deloitte produced any evidence that this was the case when the report was prepared in late 2005, or is still the case [REDACTED]. Neither has BAA produced any evidence to show that the [REDACTED] concession agreements are any more beneficial to BAA than the agreements with other retail outlets. Furthermore, given BAA's claim in the Stansted inquiry that [REDACTED], the desirability of the [REDACTED] concession may be called into question, particularly at Gatwick and Stansted where retail revenues are lower than at Heathrow and [REDACTED].
41. Deloitte's calculation of the impact of [REDACTED] was based entirely on BAA's estimate that [REDACTED] revenues would decrease by 10 per cent for Gatwick and 15 per cent for Stansted on a stand-alone basis without Heathrow's additional bargaining power. Indeed, Deloitte acknowledged its reliance on BAA's estimates 'no support has been provided for the percentage reductions in revenue in order to quantify the benefits of the existing group arrangements and so our work has been restricted to recalculating the associated reduction in revenue based on information provided by management'.
42. We saw no evidence to support the reductions estimated by BAA and have therefore excluded these costs from our calculations.

Capex

43. BAA told us that economies of scale of 5 per cent were being achieved across the whole of the UK airports' capital spend through: volume discounts; annual rebates; leverage; efficiencies and standardization of products. Based on 2005/06 capex of £1.1 billion economies of scale would amount to savings of £55 million a year. Assuming that Heathrow could command some economies of scale after divestment this would lead to savings of £34 million. BAA took an approximate mid-point between the two and submitted that there were economies of scale of £40 million a year.

44. However, PwC's report suggested that all three BAA figures are significantly overstated for the following reasons:
- Heathrow could command the same economies of scale even on a stand-alone basis;
 - Stansted SG2 could also command the same economies of scale on a stand-alone basis; and
 - BAA had overestimated the economies of scale associated with leverage; PwC suggested 0.4 per cent rather than BAA's estimate of 1.88 per cent.
45. PwC estimated economies of scale of £12 million a year based on the assumption of 4.77 per cent of capex (excluding that relating to Heathrow and the second terminal at Stansted), a figure which would be reduced to £8 million if PwC's economies of scale assumption of 3.29 per cent were used instead. We have used this lower figure in our calculations.

Supply chain

46. BAA has a central Supply Chain function which orchestrates all procurement and sourcing for the group. A report by the Supply Chain management identified £14.6 million of operational value improvements and £45.4 million of capital value improvements achieved across the supply chain for the designated airports through: cost avoidance; cost reduction; or process improvement.
47. BAA took the view that some of these savings might have been achieved by the airports as stand-alone entities and therefore arbitrarily estimated that:
- Heathrow could not have achieved 2/12 of the savings without a central Supply Chain function;
 - Gatwick could not have achieved 3/12 of the savings; and
 - Stansted could not have achieved 7/12 of the savings.

48. Deloitte calculated the benefit to the designated airports of the central Supply Chain function as £13.3 million (rather than £15 million suggested by BAA) calculated as follows:

TABLE 5 **Central Supply Chain function**

<i>Airport</i>	<i>Operational value improvements £'000</i>	<i>Proportion reversed</i>	<i>Amount reversed £'000</i>	<i>Capital value improvements £'000</i>	<i>Proportion reversed</i>	<i>Amount reversed £'000</i>
Heathrow	9,009	2/12	1,502	38,485	2/12	6,414
Gatwick	4,364	3/12	1,091	1,341	3/12	335
Stansted	1,184	7/12	691	5,548	7/12	3,236

Source: Deloitte, BAA.

49. It is unclear whether the benefits are on an annual or cumulative basis. BAA provided no evidence for its assumptions as to the proportion of savings that would not be made by the stand-alone companies.
50. We believe that there is some double-counting between the work undertaken by PwC and that undertaken by Deloitte. PwC suggested that BAA benefited from capex economies of scale of £8–12 million (see paragraph 45) and opex supply-chain economies of scale of £2–5 million (see paragraph 28). We have therefore excluded the Deloitte savings as being double-counted.

Group functions

51. BAA's pan-airport functions (eg traffic and forecasting, research, economics and regulation, airport planning etc) are currently not replicated at airport level. BAA estimated that allowing for replication of activities at airports could add approximately £2 million a year to costs across the airports.
52. BAA has not provided any evidence to support the economies of scale saving figure of £2 million a year and neither of the consultancy reports addresses quantification of this area. We have therefore excluded these costs.

Conclusion

53. A review of the evidence provided by BAA in support of its estimated economies of scale benefits of £100 million a year suggested that the figures have been overestimated and in some cases double-counted. BAA has produced consultancy reports to support its estimated savings yet in many instances these reports do not support the BAA figures or simply re-perform calculations based on BAA's own assumptions and do not provide independent substantiation of these estimates.
54. Our review of BAA's submission and the consultants' reports suggest that the potential benefits of common ownership are at maximum likely to be less than one-third of those projected by BAA. These are set out in the following table.

TABLE 6 CC estimate of maximum likely economies of scale

	<i>BAA estimate</i> £m	<i>CC estimate</i> £m	<i>CC comment</i>
Supply chain	3.5	2.0	Lowest BAA estimate
Rent and rates	2.0	0.2	BAA estimate less PwC sensitivity
Corporate office costs	-1.0	-1.0	
IT	29.0	14.0	Assumed £15 million overstated
Insurance	4.5	4.0	Lowest BAA estimate
BSC	2.0	2.0	
WDF	4.0	0.0	No evidence for claimed saving
Capex	40.0	8.0	Lowest PwC estimate
Supply chain	15.0	0.0	Double-counted
Group	<u>2.0</u>	<u>0.0</u>	No evidence for claimed saving
	<u>101.0</u>	<u>29.2</u>	

Source: CC, BAA.

55. We also observe that BAA's comments are predicated on the assumption that the airports will be stand-alone entities after any divestment. It is highly likely, given the value of the airports under consideration, the CC requirements for expertise in airport operation in any suitable purchaser and the record of acquisitions of airports in recent years that the airports may be acquired by large companies or financial institutions with existing airport operations. In such circumstances the new business would potentially have the ability to deliver much of what BAA considers to be the benefits of common ownership. As such, much of these benefits would not be relevant customer benefits.

56. As noted in paragraph 26, a number of airlines have submitted that there may in fact be negative economies arising from BAA's common ownership. In addition, as noted in paragraph 25, we have also found significant scope for efficiency savings in BAA's capital and operating expenditure in our regulatory reviews of Gatwick, Heathrow and Stansted.
57. In view of the above considerations we consider it is unlikely that there will be significant relevant customer benefits arising from economies of scale.

Miscellaneous benefits of common ownership

58. Apart from quantified benefits of common ownership BAA has also identified a number of unquantified benefits of common ownership:
- (a) a higher likelihood of obtaining planning permission;
 - (b) break-up would fundamentally undermine BAA's attempts to deliver new runway capacity;
 - (c) BAA's commercial interests lie in the full implementation of the 2003 Air Transport White Paper (the White Paper);
 - (d) access to capital markets at cost-effective rates; and
 - (e) break-up would disrupt BAA's efforts to improve the level of passenger experience.
59. We consider below each of the benefits claimed by BAA.

Planning permission

60. BAA stated that:
- Under joint ownership, BAA can marshal its unique expertise in a coordinated fashion that is most likely to secure the requisite planning permissions. Critically, under separate ownership the individual airports

would actively seek to destabilize the planning applications of the other airports. Separate ownership would also lead to the dissipation of BAA's central planning resources, leading to a loss of expertise and experience. Overall, the result of separate ownership will result in planning paralysis, thereby reducing the likelihood of capacity expansion being given planning permission.

61. Each of the airports has its own planning department, therefore it is not clear that there is significant benefit to be gained through joint ownership. We also note that the vast majority of costs incurred in relation to the SG2 scheme relate to external consultancy, thus suggesting that the vast majority of the planning expertise cited by BAA is in fact bought in.
62. It is possible that airports under individual ownership might seek to destabilize the planning applications of the other airports although it is unclear to what extent objections by Gatwick, for example, would carry any more weight on decisions on planning permission at Stansted than objections by Luton airport. Our review of past planning inquiries suggests that, in general, the views of other airport operators are taken on their merits and are not a deciding factor in planning inquiries. In addition, competition might result in more chance of obtaining planning permission as efforts would not be dissipated across the BAA group but concentrated at each of the airports.
63. Our review of past planning inquiries suggests that there is no demonstrable beneficial impact on planning permission from common ownership. BAA claims that there is central expertise that would be lost through divestment: however, it could also be argued that divestment would enable the planning team to concentrate on individual airports rather than on group-wide schemes.

64. Given that BAA has never been involved in the planning and building of a new runway and given that the operation of the planning system has evolved considerably over the last few years, there is no reason to believe that BAA would benefit from any greater experience than any other airport operator. In fact, it is possible that the separated airports could be acquired by an airport operator with more experience of runway planning and construction.

Runway capacity

65. BAA stated that any [X].
66. We do not consider that requiring divestment would pose a significant impediment to the proposed third runway at Heathrow, given the stage of development of this project. Similarly the development of HET is carried out by Heathrow's team and should not be effected. In relation to Stansted, consideration needs to be given to the impact of the timing of divestment on the planning inquiry, but we do not accept that a break-up per se would fundamentally undermine the effort to deliver new runway capacity.

The White Paper

67. BAA claims that it views the implementation of the capacity expansions proposed in the White Paper as a key business objective, such that value is maximized by delivering new runway capacity as quickly as possible. It also claims that there is a substantial risk that separately owned airports would take a different view.
68. There appear to be two parts to this argument:
- (a) Currently BAA is incentivized through the RAB-based building block approach to undertake large capital programmes (such as new runways) because it derives a guaranteed return on such capex. It is unclear whether BAA would consider

runway expansion such a key objective if the capex were not recoverable through the RAB.

- (b) If the separately owned airports were similarly rewarded for undertaking large capex programmes through the RAB then it could be argued that they too would make runway expansion a key business objective. Moreover, the CC could make it a requirement of the sale that the new owner of Stansted should pursue the planning application for a second runway at Stansted.

Access to capital markets

69. BAA claims that common ownership gives it the necessary scale to enable airports to access capital markets at cost-effective rates.

70. In its letter to the CC the Canada Pension Plan Investment Board (CPPIB) commented that:

All things being equal, joint ownership does facilitate access to capital markets, as there is a perception of risk spreading through diversification away from single events. However, in discussions with lenders, we have been unable to quantify what the impact might be specifically, and we do not suspect that it is material. This arises because lenders can achieve the same level of diversification on their own through investments in multiple component pieces, as opposed to all parts in a mandatory way, a situation that in turn might be more attractive to the lender.

71. Given these comments we do not consider BAA's arguments to be persuasive.

Passenger experience

72. BAA claims that any break-up would disrupt and potentially jeopardize its efforts to improve the level of passenger experience. It states that it is committed to a

programme of redevelopment, renewal and significant capacity expansion at its airports and that break-up would potentially put this investment programme on hold. Furthermore, BAA claims that there is a risk that separately owned airports (including any retained by BAA) could adopt different and less favourable business strategies.

73. The CPPIB commented 'owners looking for sustainability and growth will not allow quality of service to deteriorate to levels that would jeopardize future revenues or cap growth in passenger demand for the airport'.
74. Our view is, therefore, that whilst a new airport operator might hold different views on how to facilitate the passenger experience, it is unlikely that it would allow quality of service to deteriorate to the detriment of future revenues.
75. We also consider that increased competition through divestment will result in an improvement in the level of passenger experience and more emphasis on ensuring that facilities are fit for purpose.

Conclusion

76. Overall there appear to be no significant miscellaneous benefits likely to arise from common ownership.