

IN THE COMPETITION COMMISSION

UK AIRPORTS OWNED BY BAA

MARKET INVESTIGATION

SUBMISSION NO. 1 OF FLYBE LIMITED

4 May 2007

LANE & PARTNERS LLP
15 Bloomsbury Square
London
WC1A 2LS

Tel: 020 7242 2626
Ref: RWV/657.28
Email: richard.venables@lane.co.uk

1. INTRODUCTION

- 1.1 This Submission is made by Flybe to the Competition Commission (CC) in response to the invitation contained in the CC's letter dated 12 April 2007.
- 1.2 In connection with the OFT's market study, Flybe made a submission to the OFT on 17 August 2006 and we understand that this submission will be passed to the CC by the OFT. In addition, Flybe commented, by letter dated 7 February 2007, on the OFT's proposed decision to make a market investigation reference to the CC. This letter also should be taken into consideration by the CC.
- 1.3 Flybe will not, in this submission, repeat at length the points which it made to the OFT. This submission will concentrate, as requested by the CC, upon Flybe's comments on the OFT's reasons for the referral. There are important points to be made in relation to Southampton airport (SOU). In relation to the Scottish Lowland Airports, Flybe agrees with the OFT that it is appropriate that the CC should carry out a comprehensive investigation with a view to establishing whether or not the joint ownership of Glasgow (GLA) and Edinburgh (EDI) restricts, prevents or distorts competition.

2. SOUTHAMPTON AIRPORT (SOU)

- 2.1 The OFT have proceeded cautiously in relation to SOU. At paragraph 4.30, on pages 34 and 35 of OFT 912, the OFT have indicated that they did not address whether London City (LCY) and SOU should be included in the relevant market "*because the relatively small scale of these airports means that their inclusion or exclusion would not affect our later conclusions*".
- 2.2 BAA sought to persuade the OFT to exclude SOU and ABZ from the reference (see paragraph 8.30) but the OFT declined to do so, because it is for the CC to define the market, and to exclude SOU would cause administrative inconvenience, at the least, if the CC were then to decide that SOU should be included in the relevant market. Flybe agrees with this reasoning.

2.3 The OFT dealt, at paragraph 4.60, with SOU in a little more detail:

“One airline provided evidence during our study of competition on domestic routes to support the inclusion of Southampton airport in the market. During the consultation it provided further evidence to support this point. We still consider it unlikely that Southampton, even if independently owned, could exert a substantial competitive restraint on a hypothetical monopoly owner of Heathrow, Gatwick, Stansted, Luton and City airports. As such including or excluding Southampton from the market would not materially affect our conclusions. We therefore leave this question open”.

2.4 Flybe urges the CC to define the market for the provision of airport services by BAA in the South East of England to include SOU. As is clear from the Flybe submission to the OFT, SOU is small but it is growing. In the year to 31 March 2006, total passengers at SOU amounted to 1.9 million (see Attachment FB4). Even at this level, Flybe submits that the comparisons at FB5 demonstrate that the existence of competitive services from SOU to the same destinations as those served from LHR and LGW have resulted in consumer benefits and services from SOU have drawn traffic away from these two airports.

2.5 On domestic routes (shown in FB5), services from SOU have achieved a growing share of the market of passengers carried from SOU, LHR and LGW. This is demonstrated in Table FB1 below.

Table FB1
UK Domestic Routes
SOU Share of SOU/LHR/LGW Market

	2003/4 %	2004/5 %	2005/6 %
ABZ	1.6	2.3	3.5
BHD	7.1	9.4	10.6
EDI	4.7	7.5	8.8
GLA	4.0	6.7	10.0

MAN	3.4	6.0	9.8
NCL	2.3	6.3	12.7

2.6 If one considers the competitive effect which services from SOU to domestic destinations have had on the equivalent services from LHR only, the effect is more marked, as shown in Table FB2 below.

Table FB2
 UK Domestic Routes
 SOU Share of SOU/LHR Market

	2003/4 %	2004/5 %	2005/6 %
ABZ	2.4	3.1	4.7
BHD	9.0	11.6	13.2
EDI	6.7	10.5	12.3
GLA	5.0	8.3	12.4
LBA	8.0	12.9	26.7
MAN	4.5	7.7	13.1
NCL	3.4	8.9	17.0

2.7 The passenger figures in FB5 (source: CAA) are compiled to 31 March 2006. The data for 2006/7 will shortly be available and Flybe will provide such further data as the CC may require in this respect. A similar exercise has not been attempted in relation to international traffic because the development of European regional services from SOU has been disappointingly static, as a direct result of the lack of encouragement from Southampton Airport. This topic is dealt with at paragraphs 5.5 and 5.6 of Flybe's submission dated 17 August 2006 and Attachment FB4 shows the domestic and international carryings at SOU in the last three years for which data was then available.

2.8 The CC will have in mind that the development of services from SOU has occurred despite the pricing policy of BAA, as owners of SOU. Flybe drew attention at paragraph 5.14 of its submission to the OFT dated 17 August 2006 to the BAA policy of setting the rate of capital return at SOU by reference to the rate of return in London. The result is (as shown in Flybe's Attachment

FB7 to that submission) that the airport charge payable by Flybe at SOU in 2006 was double that payable at MAN and substantially higher than the charges paid by Flybe at most other UK airports. BAA's pricing policy does not encourage the development of a range of services from SOU such as one would expect from a regional airport with a catchment area such as that enjoyed by SOU.

- 2.9 There are several European airports which are not served from SOU but which an important regional airport ought to include within its range of services. In Flybe's submission, if SOU were in private ownership which differed from the ownership of LHR and LGW, competition between the airports would be stimulated and the resulting benefits would pass to the consumer through the greater encouragement to airlines to develop services and to draw traffic from LHR and LGW on a much wider range of routes.
- 2.10 For the above reasons, Flybe believes that SOU should be included in the relevant market. There is already evidence of the prevention, restriction and distortion of competition through joint ownership, and the overlap of catchment areas, shown in Figures 4.2, 4.3 and 4.4 of OFT 912, provide a good reason for including SOU in the relevant market and for a thorough investigation of the benefits which would accrue if SOU were to come into different ownership.

3. CONCLUSION

- 3.1 Flybe has in this Submission restricted its comments to addressing the reasons for the referral of this case to the CC. Flybe is strongly of the view that competition would be encouraged if Glasgow and Edinburgh airports were in separate ownership and agrees with the OFT's reasoning in that respect. Flybe is ready to provide such further information and comment as the CC may require in this connection.
- 3.2 Flybe believes firmly that the OFT have underestimated the potential of SOU as a regional airport in the South East providing a competitive alternative to

the increasingly congested LHR and LGW. We request that the CC should consider the further evidence which was attached to Flybe's letter to the OFT dated 7 February 2007. Annex 1 provided hard evidence of the "penetration" which Flybe achieved into other areas of the UK when attracting passengers to fly from SOU. Annex 2 contained statistics provided to Flybe by Southampton Airport. This attachment supports the contention that there are significant numbers of passengers for whom SOU would be the most convenient airport if its range of services were greater and the service and fare levels were competitive with the necessarily higher frequency offerings from the larger London Airports. The statistics produced in Tables FB1 and FB2 above show that greater penetration is achievable and Flybe submits that there is a much greater likelihood of this being achieved if a separate owner has the incentive to assist the airlines in drawing traffic away from the London Airports.