

12 April 2007

Ms Julie Hawes  
Inquiry Coordinator  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD

Dear Ms Hawes

Sussex Enterprise is the Chamber of Commerce for Sussex and our Members, between them, employ over half of the working population in Sussex. The aviation industry is vitally important to Sussex businesses with 64% using air travel and, of those, eight out of ten say it is important to their business<sup>1</sup>. We have an active interest in Gatwick Airport which is central to the future of the Sussex economy by providing jobs and creating a thriving, productive economic environment to live and work in. As the Chamber of Commerce for Sussex we represent the majority of business views in the county.

Thank you for inviting Sussex Enterprise to respond to the market inquiry into the supply of airport services by BAA within the UK. Following our response to the OFT's UK Airports consultation (December 2006)<sup>2</sup> regarding the referral of BAA in the South East to the Competition Commission, I would like to inform the inquiry of our concerns. Please see this information contained below, as set-out in our original response to the OFT.

### **Market Inquiry into the supply of airport services by BAA within the UK**

The OFT's proposal to make a market investigation reference needs to adhere to section 131 of the Enterprise Act 2002 and, as such, we have organised our comments under the three issues raised in relation to section 131.

#### **The section 131 test for the South East of England**

##### **The existence of development restrictions and capacity constraints (paragraphs 6.4 to 6.15)**

Sussex Enterprise endorses the OFT's view in paragraph 6.15, page 69 that 'development restrictions and capacity constraints are a feature of the market that restricts, prevents or distorts competition'. We would like to highlight to the OFT the importance of a second runway at Gatwick to the Sussex economy.

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<sup>1</sup> Get Sussex Businesses Moving 2004, Sussex Enterprise

<sup>2</sup> OFT UK Airports – Report on the market study and proposed decision to make a market investigation reference, December 2006

In our response to 'The Future Development of Air Transport in the UK: South East (SERAS) May 2003 we stated that expansion of Gatwick is financially and economically viable and is sufficient to sustain its competitiveness against other airports. The case for a second runway at Gatwick is overwhelming, for the following reasons:

- Gatwick airport's runway is the most heavily used single runway in commercial air transport operation in the world. Its passenger numbers grew by 4.2% in 2005 whilst an extra 1.3m people used Gatwick in 2005, compared to 2004.
- The demand for slots at Gatwick exceeds supply today, particularly when compared with other South East airports. Gatwick has seen a 12% rise in demand between 2001-2002 compared with 2.6% at Heathrow, -11.4% at Stansted and -11.1% at Luton. Figures issued by Airport Coordination Limited.
- In the ranking of runway development options by net benefit in the SERAS document, additional Gatwick runways feature in all of the top six options. Even in the new DfT figures taking into account the revised figures based on new Treasury guidance, additional Gatwick runways are in all top six options, which is not the case for Heathrow or Stansted.
- The SERAS consultation document identified Gatwick as having only limited emission and noise impacts which could be mitigated, particularly compared with some other options.
- Independent research conducted by NOP Business (2003) shows that one out of twenty businesses would relocate if expansion took place at other South East airports, excluding Gatwick. SEER Consulting forecasts show this could result in the loss of 30,000 jobs and cost the Sussex economy £1bn.

The Government has made its decision regarding runways in the South East and, on behalf of business, welcome the decision to safeguard land for a possible runway at Gatwick if development is unable to take place at Heathrow.

This aside, we are concerned that single ownership of the three airports in the South East may affect the airports' ability to respond to customer demands. Increased autonomy may allow Gatwick to meet increasing demand and provide a quality service for customers. In addition, Sussex Enterprise opposes the CAA adopting the 'system approach' to cross-subsidise Stansted Airport which, in the OFT's view has a 'market power (that) appears to be less than Heathrow and Gatwick ... it has, in the past had substantial spare capacity to fill'.

The joint ownership of Heathrow airport, Gatwick airport and Stansted airport by BAA (paragraphs 6.33 to 6.95)

In paragraph 6.67, page 85 it says 'Some airlines at Heathrow also expressed concerns about the cost of the proposed development at Stansted. Their concern was that at some point in the future CAA would allow BAA to revert to a 'system approach' to calculating price caps, in which BAA would be able to cross-subsidise development at Stansted by raising charges at Heathrow (and/or Gatwick). Footnote 87 on this page states that the OFT 'have seen confidential information from May 2005 in which BAA told potential investors that it thought a return to a system approach would be merited, and contained indicative costs to Heathrow and Gatwick passengers'.

Sussex Enterprise, on behalf of businesses, is concerned about the cross-subsidization of a new runway at Stansted from passengers travelling through Gatwick Airport. The CAA's policy currently is that the three BAA London airports should be regulated on a stand-alone basis and is the working assumption for the new airports price review in 2008 and beyond. However, the CAA advise they would be bound to consider any representations in the next price review to move away from this approach. Sussex Enterprise strongly believes the development of a new runway at Stansted Airport is on a stand-alone basis. We oppose the cross-subsidization of airport charges between the three London airports owned by BAA.

The potential need to cross subsidise a new runway at Heathrow or Stansted gives out a clear message that development of the Essex airport is not commercially viable. Gatwick has the capabilities of being one of the top self sufficient companies in the UK and should not have to use its resources to fund increased capacity at other airports.

It is inappropriate to increase charges to Gatwick Airport passengers (and/or those at Heathrow) without providing value to customers. Furthermore, it would distort the competitive market between Heathrow, Gatwick and Stansted.

Sussex Enterprise shares the concerns raised by airlines using Heathrow (paragraph 6.62, page 84) that 'if BAA made a loss making investment at Stansted it might seek to recoup its losses through higher charges at Heathrow and Gatwick'.

### **Heathrow and Gatwick Quinquennial Review**

Thank you also for inviting Sussex Enterprise to respond to Heathrow and Gatwick's Quinquennial Review. The question of cross-subsidising between the three BAA London airports is mentioned in the Civil Aviation Authority (CAA) Airport Price control review – CAA recommendations to the Competition Commission for Heathrow and Gatwick Airports (March 2007). This document states that 'in December 2005, the CAA invited evidence that the adoption of a 'public interest levy' or other 'system' approach might be consistent with its statutory duties. However, no substantive evidence emerged to support such a change in approach. Accordingly, in its December 2006 initial proposals the CAA confirmed its intention to regulate BAA's designated airports separately' (Annex B, B.37, page 176).

Following our comments above to the OFT's UK Airport Consultation, Sussex Enterprise fully supports the CAA's proposals to maintain a stand-alone approach for the three BAA London airports. We strongly urge the Competition Commission to ensure that a non-system approach is adopted.

Sussex Enterprise's views can be published on the Competition Commission's website and attributed to us.

Yours sincerely

Mark Froud  
Chief Executive  
Sussex Enterprise