

## STANSTED QUINQUENNIAL REVIEW

### Summary of hearing with British Airways World Cargo held on 18 June 2008

#### British Airways World Cargo's operations

1. The combined operation of the Traffic Distribution Rules (TDRs), relating to cargo operations, and BAA's ownership of the three London airports, had an adverse effect on British Airways World Cargo's (BAWC) business. Some form of price remedy was appropriate, and the Competition Commission (CC) should conclude that the TDRs were no longer appropriate.
2. BAWC was a part of British Airways, with revenues of £650 million. Its main business was to fill the space beneath the floor on passenger aircraft. The primary hub was at Heathrow and the secondary hub at Gatwick. It also used a variety of means to extend capacity in the network—interlining, trucking, and long- and short-haul freighters. About 26 per cent of the cargo flew on a short-haul or long-haul freighter at some point in its journey. Global Supply Systems (GSS), partially owned by Atlas Air, an American company, had operated the long-haul side of BAWC's freight operations since 1998. The aircraft were owned by Atlas Air, dry leased to GSS and then wet leased to BAWC. GSS operated three 10-year-old Boeing 747-400F aircraft at Stansted.

#### Stansted's market position

3. BAWC did not operate at Stansted through choice. It operated there because its customers wished it to operate at a London airport. The TDRs prevented it from operating to Heathrow or Gatwick. Its planes needed a runway at least 9,000 feet in length. Northolt and Biggin Hill were about 5,500 feet in length. Manston was only just over 9,000 feet. Stansted was 10,000 feet.
4. Flying time was expensive. Flying an extra half hour each time to Manchester or East Midlands would therefore add significant cost. Trucking added complexity, especially as air cargo was often time-sensitive. Adequate ground-handling facilities were also important. [REDACTED] In 2005, BAWC had looked at airports in the South-East and concluded that Manston would not satisfy its requirements at that time.
5. [REDACTED]
6. Around 50 per cent of BAWC's business came from a dozen key customers, [REDACTED] Main deck lift was very attractive from capacity-constrained airports such as Houston, Hong Kong and China, and led to key customers giving BAWC belly-hold business. [REDACTED]
7. [REDACTED] BAWC's customers were highly price sensitive, [REDACTED] A complication was that cargo, unlike passengers, only went one way. Yield out of the UK was low because of the small British manufacturing base.
8. Most of BAWC's large customers were very large businesses. [REDACTED] The air freight business was growing at 4 to 5 per cent a year. BAWC hoped that the current

economic situation and high fuel prices would be a short-term situation compared with the plans being made. Cargo was important to the business of BA as a whole.

## Operations at Stansted

9. The freighters based at Stansted were effectively used to support the belly-hold network and optimize it. Quite a lot of freight did fly only on freighter aircraft, but the combination was important too. BAWC used Stansted for dedicated freighter aircraft, and such aircraft landed at Prestwick twice a week. BAWC also had an arrangement with DHL, whereby it was charged for the use of DHL's aircraft. DHL operated from Heathrow, Luton and East Midlands, using A300 B4s. The freight in the DHL charter operations was predominantly transatlantic and then went to Europe, Africa or Asia. DHL complemented BAWC's operators because it mostly flew at night, and BAWC could take advantage of its downtime during the day. BAWC also shared capacity with JAL, Korean and EVA.
10. Heathrow would be the airport from which BAWC would ideally work, were there no capacity constraints there. Gatwick would be the next preferred airport.
11. BAWC had not seen any major operational or capacity problems at Stansted. Moving pilots through security was not a major issue there. BAWC had no problem finding slots at the times when it wanted to operate. It tried not to use the night-flight quota. BAWC had accommodated the night-time constraints at Stansted, which to some extent arose from BAA's approach to freighters. BAA had always wanted to focus on passenger aircraft, even at its third London airport. [REDACTED]

## Facilities at Stansted

12. BAWC had not taken a view on whether a longer second runway would be required, though segregated mode would seem to require one. However, for five or six years there had not been any investment for cargo operators, despite steadily increasing prices.
13. Parking at Stansted was very tight around the back of the cargo sheds. [REDACTED] Because BAWC would prefer to operate from Gatwick rather than Stansted, it had met BAA about six weeks previously and had asked it whether Gatwick had stands of sufficient size, but had not yet received an answer. [REDACTED]
14. BAWC had no direct contact with the Stansted Airline Consultative Committee (SACC), though BA sent a person occasionally to monitor the progress of the Stansted development proposals. Most of the activity of this group seemed to be focused on passenger aircraft. There was no subgroup at the SACC to represent the interests of cargo operators. BAWC did not have a bargaining position against the airport. Every year, prices rose. BAA would have needed to have given BAWC a large incentive to keep its recently withdrawn aircraft in service. BAWC had looked at alternatives in 2005, including East Midlands, Manston, Brize Norton, Birmingham and Manchester. Smaller airports could not handle freighters with the payload and range which BAWC required. Customers from Shanghai and Hong Kong did not want a 70-tonne payload aircraft. BAWC had not recently been able to obtain any discounts from BAA at Stansted. There had previously been a 10 per cent discount on parking charges which had expired. The parking charges at Stansted were very high compared with Gatwick.

## Gatwick

15. At Gatwick, BAA had not engaged with BAWC on the issue of removing the TDRs. BAWC considered that it could obtain slots at Gatwick if the TDRs were abolished. It would need slots both on and off peak. In BAWC's experience, BAA was in the lower quartile of airport operators on cooperation. Other airports tended to value BAWC's business more, offering discounts to defer extra costs which BAWC would incur for moving there, though these discounts were insufficient. BAA was very poor in terms of service. Huge disruption had been suffered at Heathrow caused by security problems which had cost millions of pounds. There were not, however, lots of operational problems at Stansted. There were operational problems at Heathrow, a lack of interest in cargo at Gatwick and big price rises at BAWC's last option, Stansted. BAA was proposing to build a cargo facility at Stansted, though one existed at Gatwick, which BAWC had fitted out.
16. BAWC understood that Gatwick had a preference for passenger operations over cargo because they could generate more revenue. BAA did not seem at all interested in changing the TDRs. BAWC, however, needed the TDRs to be changed for it to be able to operate from Gatwick. It would also need to secure slots, and to work with GSS to relocate its operation from Stansted. The facility was already at Gatwick. Changing the TDRs was the only significant problem, [✂] It was possible that BAWC would save up to £3 million a year, with an extra million per additional aircraft if it expanded in the future. Slots traded for much less at Gatwick than at Heathrow.

## Impact of separate ownership

17. It was highly likely that a separate owner of Gatwick would be much more interested in developing its cargo business and therefore in lobbying for the TDRs to be removed. Though a new owner might conceivably take some time to develop new capacity, there would be little delay at Gatwick, where the infrastructure for BAWC's operations was already in place. BA had had around 30 long-haul aircraft at Gatwick at one stage, and the capacity was still there to deal with the belly-hold cargo. A separate owner would certainly want to maximize cargo opportunities at Gatwick, which might suffer from the opening of the US market with Open Skies. At the moment, BAA was indifferent to BAWC's concerns, because it had to operate out of Stansted. BAWC had significant cost disadvantages in operating out of Stansted as opposed to at Gatwick.

## Pricing for cargo aircraft at Stansted

18. The implementation of Condition 2 of Stansted's licence was unsatisfactory, though the Condition itself might not be. Large aircraft were charged unreasonably higher prices particularly off peak, affecting those who operated 747s or Antonovs, though not 777s. In practice, this applied almost exclusively to cargo aircraft at Stansted. These charges would be unlikely ever to hit passenger aircraft, because airlines would not base large aircraft at Stansted, but would serve even long-haul routes with smaller planes. BAWC did not see any cost-related justification for either the weight band differential between aircraft that were lower or higher than 250 metric tonnes, or why the off-peak landing charge discounts were only applied to smaller aircraft lower than 250 metric tonnes.
19. If airports had been operating competitively in the South-East, it was not clear that East Midlands would have developed as a cargo airport. This had happened because BAWC had been forbidden to operate night flights from any of the South-East

airports. [✂] BAWC had also been paying significantly higher charges at Stansted for no additional facilities. Other airports in the UK were cheaper than Stansted. [✂]

20. BAWC could not see anything in the capital expenditure plans dedicated to supporting the level of growth in cargo at Stansted which BAA was forecasting, except for the new shed, which was not necessary.
21. BAWC had no alternative proposals for Condition 2. It wanted more cost-reflective charges for its freighters and the abolition of the TDRs. The CC could not remove them itself, but could recommend their removal to the Government. Circumstances had changed since the TDRs were last reviewed in the early 1990s. Removal of the TDRs would make BAWC's business more efficient. Other UK airports offered cheaper rates than Stansted. BAWC considered itself a captive customer at Stansted, so price regulation would control Stansted's ability to increase its prices. A large price rise at Stansted would be more difficult for BAA in the absence of the TDRs, because it would be easier for customers to move to Gatwick. However, BAWC would be likely to relocate its operations there in any case.