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Ms Estelle Harvey  
Inquiry Co-ordinator  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD

23<sup>rd</sup> May 2008

Dear Ms Harvey,

**Re: Stansted Quinquennial Review**

British Airways World Cargo is responding on behalf of Willie Walsh, to your letter dated 1<sup>st</sup> May 2008 in reference to the review, which you are conducting.

**Summary**

In this letter we explain the damaging impact of Traffic Distribution Rules (TDR's) on British Airways cargo business and we make the case for changing them. We also consider that Stansted Airport may have structured its charges in a way that discriminates against freighter operations. We believe this maybe a matter of Public Interest and therefore appropriate for you to consider in this review. We would also like you to consider the TDR's as part of the BAA Airports market investigation. We believe that the ability to move freighter operations to an airport, such as London Gatwick, would bring benefits for our customers and our business.

**BA World Cargo at STN and the UK industry**

Stansted Airport (STN) is the UK freighter hub for the British Airways World Cargo (BAWC) long-haul freighter programme. The programme consists of three leased Boeing 747-400f aircraft, which are operated on our behalf by Global Supply Systems (GSS). The

programme was implemented in 1998 and grew to four aircraft by 2004. The programme was reduced to its existing size in 2006 [X].

[X].

The programme delivers a significant proportion of the direct airfreight imports from China and Hong Kong into the UK. These imports consist of a range of goods including many items sold on the High Street including consumer electronics, clothing, and toys etc.

The ability of UK companies to be able to source these items from low cost manufacturing points in the world within competitive timeframes is made possible by the use of airfreight. This in turn helps keep UK inflation under control.

### **How freighters fit with business strategy**

BA World Cargo's primary purpose is to maximise the contribution to British Airways (BA) belly-hold capacity on passenger aircraft. Therefore our operations are closely linked to those of BA, with our primary hub at London Heathrow (LHR) and secondary hub at London Gatwick (LGW). The majority of our UK customers (freight forwarders) are clustered close to LHR.

Air-cargo is a marginal business with typical operating profits of 5% for freighter aircraft. Trade imbalances have a significant effect on profitability (as cargo does not make a return trip). The UK is not a strong export air-cargo market, showing no growth between 2004 and 2007 versus 20% growth from Europe over the same period. Additionally, BA's passenger network is based on where passengers want to fly to and is not based on air-cargo trade lanes.

The two points above mean that to operate successfully, BAWC is best served by supplementing belly-hold capacity with cargo freighters. The freighters allow us to:

1. Provide additional capacity where our customers need it most e.g. Hong Kong to UK. Critically, this also provides us with greater leverage on price and volume elsewhere on lower demand routes from the same customers.
2. Provide a mechanism for supplementing the relatively weak UK export market and addressing network imbalances by encouraging higher levels of freight into the UK for onward transshipment on either belly-hold or freighter.

The current ground handling operation at STN is contracted to ServisAir Cargo, with minimal BA representation. ServisAir Cargo provides all facilities, staff and operational equipment. Facilities costs are included within contracted ground handling and ramp charges and are therefore unknown to BA. [X].

BAWC is currently evaluating a progression from Boeing 747-400f aircraft to "new generation" aircraft. [X]. The main rationale for a move to these aircraft would be:

1. Increased fuel efficiency;
2. Reduced carbon dioxide emissions;
3. NOx efficiency;
4. Reduced noise; and
5. Greater payload.

Additionally BAWC is assessing increasing the fleet number [X] based upon;

1. Greater operating efficiency of the aircraft;
2. Fleet size efficiencies; and
3. Expected growth in BA belly-hold capacity, which will in turn require greater levels of cargo feed to and from the UK market.

[X].

### **The STN operation**

As stated above, the primary hubs of BA and BAWC are LHR and LGW. Our freighter programme is operated at STN because BA cannot gain acceptable scheduled freighter access to either primary hub. This is not a position, which BA supports for the following reasons:

1. Operation of a third main hub within the UK unnecessarily increases costs and complexity to BA;
2. As air-cargo needs to be trucked between LGW, LHR (where our customers are predominantly based) and STN airport, delivery times to our customers are extended and our

transshipment product is deteriorated. This in turn leads to higher emissions caused by the increased trucked journey lengths; and

3. Decreasing cargo volumes at LGW continue to reduce utilisation of our operation.

### **Cost**

The cost of operating our freighter programme at STN is significantly higher than it would be at LGW. BA would reduce cost by approximately GBP[×] per annum on a like for like operation. The saving would be made by;

1. GBP[×] removal of ground handling agent costs at STN;
2. GBP [×] reduction in trucking costs by reducing the distance freight needs to travel by road – primarily the M25;
3. **GBP [×] reduction in airport user charges. Our forecasts show that the cost to BA of operating at STN is [×]% higher in airport charges terms than it would be to operate the same programme at LGW;** and

These savings are partially offset by some increased manpower costs driven by increased activity at LGW, resulting in an **overall saving of GBP [×] per annum.**

### **Complexity**

Operating a third hub is far from ideal, by introducing a further major operation:

1. Risk of operational failure is increased. Unnecessary transfers cause service failures for our customers and increase the need for operational recovery for BA. The UK already has more time-consuming security procedures than other EU countries and any changes, which mitigate transit times are crucial to competitiveness.
2. The travel time between LHR and STN is 43% longer than between LHR and LGW. This extends customer connection times, reduces our product offering and increases the risk of service failure.
3. LGW has significantly better access to transport interchanges than STN. Being close to the route, which our truck services

from Europe operate, LGW is used to ensure secondary security screening compliance under UK government legislation. If our freighter programme operated from the same location BAWC could offer a significantly enhanced mixed-modal road/ air product from LGW with an increased opportunity to consolidate freight at one point.

### **Competitiveness**

BA believes that:

1. Our long-haul freighter operation must operate within the London environs and at an airport with sufficient runway length for a large, wide-bodied aircraft and cargo handling capability.
2. There are three airports which currently have the necessary combination of these factors: LHR, LGW and STN. All three are owned and controlled by the BAA.
3. The current Traffic Distribution Rules prevent BA (or any other airline) introducing new air-cargo scheduled services during peak times at either LHR or LGW.
4. BA is therefore effectively forced to use STN as a third hub in the UK, where cost of operation is significantly higher in terms of both user charges and ground handling than it would be at LGW.
5. In a marginal business, where there is significant pressure on airfreight prices we have had to radically restructure over the last few years to mitigate as much cost as possible. Faced with a monopoly position at STN we have no choice other than to accept the continued annual increases in user charges from the BAA with no real power to negotiate a realistic settlement.
6. By forcing BAWC to operate from STN, our customers are inconvenienced and placed at a disadvantage, the product offering to them is diluted and the risk of failure to the service we provide them is increased.

This leads BA to the conclusion that the current Traffic Distribution Rules need to be revised to allow air-cargo scheduled services to operate freely within the London environs, particularly at LGW on an equitable basis with passenger services.

**Further Information**

BAWC submits this letter to the STN Quinquennial Review to inform the Competition Commission's Statement of Issues. For further questions regarding the issues raised please contact:

**David Milford**

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Please note that the contents of this letter contain sensitive business information and should be treated as confidential.

Yours sincerely

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