

CHAPTER 9

Concessions and licences

9.1: At each of its airports BAA grants rights (generally known as concessions) for the sale of goods and services to the public and similar rights (generally known as licences) for sales to airlines.¹

The market for concessions

9.2. Table 9.1 sets out the principal areas of concession income for BAA in the year ending March 1985. Figures for earlier years are shown in Table 7.5.

TABLE 9.1 BAA concession income, 1984-85

	<i>£ million</i>
Duty-free liquor	25.6
Duty-free tobacco products	18.1
Other tax-free	25.4
Tax- and duty-paid goods	10.1
Catering	6.3
Advertising	1.9
Car hire	5.2
Car parking	16.3
Other concession income (including banking)	11.0
Advertising administered by concessionaires	(1.0)
Total all concessions	118.9

Source: BAA.

9.3. The concessions are usually offered for tender on a terminal by terminal basis, but at some airports the facilities may be combined under one concession agreement. For example, at Stansted the duty-free, tax-free and duty-paid shops are operated as one concession in view of the low passenger throughput. Car hire concessions are granted on an airport-wide basis. Table 9.2 shows the number of separate concession agreements by airport for each main area of activity.

9.4. In practice the major concessions at BAA airports are held by relatively few companies. For the duty- and tax-free shops Allers has the concession at Heathrow (all terminals) and Gatwick, with Trusthouse Forte (THF) having these concessions at the remaining five BAA airports. THF also holds the concessions for the duty-paid Skyshops at all BAA airports except Edinburgh. The catering concessions (all terminals) at Heathrow and Glasgow are held by THF, the concessionaire at Gatwick and Edinburgh is J L Catering, whilst the concessions at Stansted (since April 1985), Prestwick and Aberdeen are held by Sports and Leisure Foods.

9.5. On car hire the position is similar, with three main companies having the majority of the airport concessions. Avis and Hertz are concessionaires at six of

¹We deal with licences to occupy property in Chapter 10.

TABLE 9.2 Number of separate concession agreements at BAA airports

	Heathrow	Gatwick	Stansted	Glasgow	Edinburgh	Prestwick	Aberdeen
Shops—duty-free liquor and tobacco	3	1	1	1	1	1	1
Shops—tax-free							
Principal duty-paid shops (Skyshops*)	5	1	1	1	1	1	1
Other duty-paid shops†	16	2		—	1	—	—
Public catering	3	1	1	1	1	1	1
Car hire	4	4	1	3	4	3	4
Car parking	1	1	none‡	1	1	1	1
Banking	3	2	1	1	1	1	1

Source: BAA.

* Skyshops are described in paragraph 4.3.

† Specialist retail outlets.

‡ BAA operates the car parking facilities at Stansted.

Note: The advertising concession for all BAA airports is held by More O'Ferrall on a single contract.

BAA's seven airports whilst Godfrey Davis Europcar are concession holders at five. Swan National, Kennings and Budget share the remaining six concessions.

9.6. NCP operates all public car parks at the BAA airports except at Stansted, where BAA is the operator.

9.7. For comparison, Table 9.3 shows the holders of the various concessions at each of the six largest local authority airports. The position is essentially similar to that at BAA airports, with a limited number of companies holding the concessions.

Contracts with concessionaires

9.8. In most cases the form of contract between BAA and a concessionaire specifies an agreement period of five years.¹ In certain cases an option to extend the contract for a further three years exists. BAA told us that extensions would now only be granted in exceptional circumstances, for example if BAA required the concessionaires' co-operation in redevelopment, or where because of redevelopment or for other reasons trading had been interrupted for a time during the contract period. On extension terms are renegotiated with the concessionaire.

9.9. BAA said that the length of the initial contract was a balance between the needs to maintain competition by tendering at regular intervals, and to provide stability and an opportunity for the concessionaire to develop his business. It was BAA policy not to encourage major investment by concessionaires, who under the contracts would only be responsible for minor capital items such as tills and cutlery. BAA undertook all other investment in fixtures and fittings because it

¹The current car hire contracts at Heathrow were let in April 1985 for three years, because of uncertainties in operation likely to be caused by the opening of Terminal 4.

TABLE 9.3 Concessionaires at local authority airports

	<i>Newcastle</i>	<i>Luton</i>	<i>Leeds/Bradford</i>	<i>Manchester</i>	<i>Birmingham</i>	<i>East Midlands</i>
Duty-free and tax-free	Finnigans	Allders	Trusthouse Forte	Trusthouse Forte	Trusthouse Forte	Fenton Hill International
Duty-paid*	John Menzies	Trusthouse Forte	Trusthouse Forte	W H Smith	W H Smith	Midport Stores
Catering	Trusthouse Forte	Trusthouse Forte	Trusthouse Forte	SAS	Trusthouse Forte	Sports and Leisure Foods
Car hire	Avis, Hertz	Avis, Swan	Avis, Hertz, Godfrey Davis	Avis, Hertz, Godfrey Davis	Avis, Hertz, Godfrey Davis	Avis, Hertz, Godfrey Davis
Car parking	NCP	Local authority	Europcar	Europcar	Europcar	Europcar
Advertising	W H Smith	W H Smith	NCP	Local authority	NCP	NCP
			W H Smith	More O'Ferrall	W H Smith	W H Smith

Sources: Local authorities.

* Principal duty-paid shop. Other specialist shops also operate.

considered that if concessionaires were responsible for major investment, difficulties would be experienced when contracts expired. BAA also told us that capital participation by concessionaires would inevitably require a longer-term contract to enable the concessionaire to recover his initial investment. Moreover, he would be unwilling to incur any further expenditure on necessary alterations, particularly near the end of the contract term, unless an extension was granted, and would therefore not respond to changing market demands. In BAA's view these considerations justified limiting the contract term to five years without major capital participation by concessionaires.

9.10. THF told us that it believed that there would be considerable merit in longer and less restrictive contracts with the opportunity for capital investment. The concessionaire could then take a longer-term view and could achieve a higher level of service and sales performance through his own management expertise. He could also respond more readily to changes in the market. THF thought this would enable the concessionaire to participate in the design of facilities to meet market requirements; and that capital investment by the concessionaire would encourage a higher standard of service because of his need to ensure a good return.

9.11. The Board of BAA considered that if catering concessionaires were to undertake capital investment the problems would outweigh the advantages. The Board nevertheless recognised the merit of a performance-related incentive. To this end BAA has relaxed the overall degree of price control on catering concessions (see paragraph 11.12 *et seq*) and intends to introduce an incentive scheme on an experimental basis, which if successful may be extended to other commercial activities.

9.12. Some of the concession agreements at local authority airports are for a longer period than those at BAA airports, commonly for five to seven years. Some local authority airports have agreements for periods of up to 21 years, usually dating back to the late 1960s, which have proved unsatisfactory in that it is difficult for airport operators to ensure appropriate responses to changes in passenger mix and pattern of demand. It is also more common to find capital participation by concessionaires at these airports.

9.13. Allders told us that longer contracts would offer better career paths to middle management. A further problem was that the normal five-year concession contract did not match the typical 21-year lease for the necessary back-up warehouse.

9.14. BAA considered that many of the staffing problems which concessionaires have would be associated with any contract of finite length. Recognising these problems it sought to encourage tenderers to employ the staff of the existing concessionaire, although this requirement was not included in contract agreements.

9.15. Concessionaires are usually required to pay BAA a fixed percentage of turnover (exclusive of VAT). The agreements relating to duty- and tax-free goods initially specify a percentage of turnover, but allow BAA subsequently to vary this in response to changes in the cost price of the goods sold. In car hire the

percentage payment is subject to a minimum guarantee. Otherwise minimum guarantees are generally only applied when a new type of concession is tried as a marketing experiment, often for a short term of six to nine months. The minimum guarantee in such cases is based on the expected income from alternative uses. The terms for banking concessions are described in paragraph 4.5.

9.16. Table 9.4 shows the average percentage of concessionaires' turnover accruing to BAA in respect of the principal concession activities. Tenderers for the duty-free, tax-free, duty-paid and catering contracts are required to bid a percentage of turnover for each of many specified product lines within the broad categories shown in the table. Thus, for example, a prospective duty-free concessionaire would be required to provide a range of bids covering some 20 product groups.

TABLE 9.4 BAA concession income as a percentage of concessionaires' turnover, 1983-84

	Product group							per cent
	Liquor	Tobacco	Tax-free	Duty-paid	Catering	Advertising	Car hire	
Heathrow	[Figures omitted. See note on page iv.]							
Gatwick								
Stansted								
Glasgow								
Edinburgh								
Prestwick								
Aberdeen								
Average all airports								

Source: BAA.

Note: The broad categories shown cover many individual product groups and the percentages shown are thus the average across these groups.

9.17. The percentages shown in Table 9.4 are significantly higher than those which we found at local authority airports.

9.18. In general concessionaires are controlled by their agreements in their pricing, product specification and range, and matters such as promotion, opening hours, staff numbers etc. The pricing policy of BAA and the principal conditions contained in the contracts are discussed in Chapter 11.

Licences

9.19. Services to airlines (see paragraph 4.6 *et seq*) can be provided by:

- (a) other airlines;
- (b) third parties operating on the airport;
- (c) third parties operating off the airport; or
- (d) directly by BAA.

The detailed arrangements vary considerably between airports; some of them are considered in detail in Chapter 11. Tables 11.1 to 11.3 show the provision of the principal services by terminal at Heathrow.

9.20. BAA derives income from these services in four ways:

- (a) For services provided by airlines it charges for the use of facilities such as check-in desks. The exception to this is any handling business at Heathrow gained by Aer Lingus since January 1984, for which a fee of [*] per cent is prescribed (but see paragraph 11.49).
- (b) For services provided by other on-airport agents BAA charges a percentage of turnover as a licence fee (for example Gatwick Handling—see paragraph 11.57—pays [*] per cent on all its business) together with rent for the use of facilities. The arrangements are in some cases embodied in a lease.
- (c) Off-airport operators are charged a percentage of turnover (or a fixed annual sum if the volume of business is small) as a licence fee.
- (d) It makes a direct charge to airlines for services which it provides itself. Such services are outside our terms of reference.

Thus not all the income from the supply of services to airlines arises as licence fees to BAA. Table 9.5 shows BAA's licence fee income for 1983–84.

TABLE 9.5 BAA income from ground handling-related licence fees, 1983–84

	£'000						
	Heathrow	Gatwick	Stansted	Glasgow	Aberdeen	Prestwick	Edinburgh
In-flight catering	*	*	*	*	*	*	*
Baggage and aircraft handling and cleaning	*	*	*	*	*		
Aircrew transport	*	*	*				
Trucked air cargo/transit sheds	*	*		*	*		*
Other	*				*		

Source: BAA.

Note: This table does not include income from services provided by BAA to airlines, which are outside our terms of reference.

9.21. Licence agreements are usually for a period of three years subject to six months' notice by either party. Typical terms are [*] per cent of turnover with a minimum guaranteed payment per annum to BAA. Other clauses limit the licensee to supplying only specified services to specified airlines. It is a condition that licences are only granted subject to airside contracts being obtained by the licensee.

9.22. BAA told us that it seeks to limit the provision of airside licences and that new licences would only be granted after receiving representations from airlines (at Heathrow and Gatwick from the respective Airline Operators Committee). Licences are not offered for tender but follow from the nominations of the airlines which themselves are often suppliers of the particular services and as such are in competition with off-airport operators. By contrast at Manchester airport (a local authority airport) we were told that when airlines had requested further in-flight caterers the licence had been put out to tender.

* Figures omitted. See note on page iv.

Conclusions

9.23. The existing concession period of five years appears to give rise to some disadvantages to concessionaires. This short period may make it difficult to attract and retain good staff and management, and is inconsistent with any major capital investment by concessionaires. We received conflicting views as to the benefits of such investment, particularly in respect of catering. BAA said that if the concessionaire had made a major investment, he would, with a fixed contract length, be reluctant to re-invest particularly near the end of the contract. THF told us that such investment would lead to greater responsiveness to the market and provide a significant incentive to the concessionaire to maintain service and sales performance.

9.24. While five-year contracts may not be in the best interests of the concessionaires, given the nature of the monopoly rights granted by BAA we think that all contracts should remain subject to regular tendering. We consider that this question of capital investment by catering concessionaires should be kept under review in the light of the outcome of BAA's recent proposals to provide them with a greater incentive.