

Manchester Airport PLC

A report on the economic regulation
of Manchester Airport PLC



MONOPOLIES AND MERGERS COMMISSION

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**Presented to the Civil Aviation Authority
June 1992**

Members of the Monopolies and Mergers Commission as at 8 June 1992

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Mr C A Unwin MBE
Professor G Whittington
Mr R Young

Mr S N Burbridge CB (*Secretary*)

¹These members formed the group which was responsible for this report under the chairmanship of Mr H H Liesner.

Note by the Department of Trade and Industry

In accordance with section 45(7) of the Airports Act 1986, the Secretary of State for Transport has directed the CAA to exclude from the published report certain matters publication of which appear to the Secretary of State to be against the public interest or the commercial interests of a person. Accordingly certain figures and text have been omitted. The omissions are indicated by a note in the text.

1 Summary

1.1. Under the reference made by the Civil Aviation Authority (CAA) on 9 December 1991 (see Appendix 1.1), we are required to recommend the maximum level of airport charges at Manchester Airport for the five years beginning on 1 April 1993 (the reference quinquennium). We are also required to consider whether Manchester Airport PLC (MA PLC) has, at any time from 29 May 1987 to the date of the reference, pursued a course of conduct which has operated or might be expected to operate against the public interest.

1.2. Manchester is the third largest airport in the United Kingdom, and was used by over 10 million passengers in 1991. MA PLC is currently constructing a second terminal which will ultimately increase its capacity to some 24 million passengers, and is planning the construction of a second runway. Airport charges (ie landing, passenger and parking charges) currently account for just over 50 per cent of the airport's income, although in considering the level of charges we also take into account other projected income. During the current five-year period, following a report by the MMC in 1987¹ (the 1987 report), the revenue per passenger from airport charges was permitted to rise by at most the increase in the Retail Price Index (RPI) each year, less 1 per cent (a 'real' reduction in charges of 1 per cent per annum). The airport did not fully recover the level of charges to which it was entitled, but its financial performance over this period is expected to be somewhat better than assumed at the time of the 1987 report.

1.3. We have recommended that the revenue from airport charges per passenger should not be permitted to rise by more than the increase in the RPI, less three percentage points. In our view, such a requirement would provide not only a challenge on the airport to contain costs by more than is currently assumed and to improve productivity and other aspects of its performance, but also an adequate incentive to invest. We have also suggested some modifications to the current form of the airport charges formula, for example to allow MA PLC to recover a larger proportion of costs associated with any additional security requirements introduced by the Department of Transport (DTp) and to reduce the delay before such costs are recovered, and use of actual rather than forecast RPI at the time charges are set.

1.4. During the inquiry several aspects of MA PLC's performance were raised with us. We have not found any course of conduct relating to airport charges or quality of service to be against the public interest, except for the issue of ground handling, considered below.

1.5. We are, however, concerned about a range of charges for facilities which are essential for the airlines to operate at the airport, but which are excluded from the airport charges formula: for example, charges for check-in desks, and the levy on aircraft fuel. We have concluded that the provision of insufficient information to users on the costs associated with these facilities puts users in a weak position to judge the reasonableness of such charges or complain to the regulatory authorities, and might therefore be expected to operate against the public interest. We have recommended that more information be supplied to users about the costs associated with a number of such charges.

¹ Monopolies and Mergers Commission: *Manchester Airport plc: a report on the economic regulation of the airport*, published by the Civil Aviation Authority, MMC 1, December 1987.

1.6. The main concern of virtually all airlines from which we heard related to the policy of MA PLC of restricting the operation of ground handling at the airport to a single supplier. Ground handling includes loading and unloading of passengers' baggage and its movement between the aircraft and the baggage sorting area; the movement of freight, steps and catering supplies; airside coaching; services for disabled passengers; and collection and delivery of passenger baggage trolleys. Following a recent inquiry by the CAA, MA PLC undertook to license more than one ground handler at Terminal 2, to permit in-flight catering contractors to load catering supplies, and to put to tender the sole contract to operate the remaining ground handling services at Terminal 1.

1.7. In our view, the restriction of the operation of ground handling at the airport to a single supplier in the period we have to examine eliminated competition and choice, and resulted in higher costs, and poorer standards of service, than in a more competitive situation, and thus operated against the public interest. MA PLC argued that its policy was justified by the need to limit congestion and ensure safety: in our view, it should be possible for independent handling agents to adopt working methods that would not put safety at risk or cause excessive congestion, and for the airport to provide facilities that would assist competing ground handlers to do so. The undertakings agreed with the CAA remedied the situation for those airlines allowed to move to Terminal 2, but the process of tendering ground handling at Terminal 1 failed to produce effective competition for the contract to operate these services: only one substantive bid was received, that from Ringway Handling Services Ltd (RHSL), a wholly-owned subsidiary of MA PLC. The tender process resulted in some reduction in cost, and the new arrangements it introduced may produce further improvements in service. We believe, however, that it failed to remedy the adverse effects associated with the continued restriction in the provision of ground handling services at Terminal 1 to a single supplier. This course of conduct might therefore, in our view, be expected to continue to operate against the public interest.

1.8. We have recommended that MA PLC be required to introduce competition in ground handling in Terminal 1 as soon as possible, and in any event no later than 1 April 1997.