4 The supply of airport services in Northern Ireland

Contents

Introduction

4.1. This chapter discusses the supply of airport services in Northern Ireland. `Airport services' are all the services supplied by an airport to airlines and passengers. We describe as `core services' those activities which relate to the handling of aircraft and the business of getting passengers, baggage and freight on and off aircraft. Non-core services (eg restaurants, car parks) are referred to as ancillary activities.

UK airports

General trends

4.2. In 1994, 122 million passengers used airports in the UK-just over two flights per inhabitant. The number of passengers grew by 24 per cent between 1989 and 1994 (Table 4.1). For Northern Ireland there were also just over two flights per inhabitant. The International Airport had 2.04 million passengers and the City Airport 1.23 million passengers in 1994, making them the 10th and 14th largest airports in the UK respectively.

TABLE 4.1 **Size and growth of UK airports**

	1994		*1989*		
	Terminal passengers '000	*Percentage of passengers at all UK airports*	*Terminal passengers '000*	*Percentage of passengers at all UK airports*	*Percentage change 1994/1989*
Heathrow	51,368	42.0	39,587	40.0	29.8
Gatwick	21,045	17.2	21,149	21.4	-0.5
Manchester	14,334	11.7	10,059	10.2	42.5
Glasgow	5,456	4.5	3,862	3.9	41.3
Birmingham	4,784	3.9	3,333	3.4	43.5
Stansted	3,256	2.7	1,319	1.3	146.8
Edinburgh	2,997	2.4	2,363	2.4	26.9
Newcastle	2,417	2.0	1,492	1.5	62.0
Aberdeen	2,163	1.8	1,730	1.8	25.0
Belfast International	2,039	1.7	2,146	2.2	-5.0
Luton	1,804	1.5	2,828	2.9	-36.2
East Midlands	1,615	1.3	1,453	1.5	11.2
Bristol	1,276	1.0	838	0.8	52.3
Belfast City	1,228	1.0	507	0.5	142.1
Cardiff Wales	997	0.8	696	0.7	43.2
Leeds/Bradford	812	0.7	866	0.9	-6.3
Isle of Man	512	0.4	510	0.5	0.4
London City	478	0.4	216	0.2	120.8
Southampton	474	0.4	492	0.5	-3.6
Sumburgh	458	0.4	373	0.4	22.9
Liverpool	440	0.4	476	0.5	-7.6
Teesside	371	0.3	332	0.3	11.8
Inverness	261	0.2	205	0.2	27.6
Humberside	253	0.2	130	0.1	93.9
Norwich	213	0.2	196	0.2	8.9
Exeter	197	0.2	220	0.2	-10.5
Prestwick	135	0.1	317	0.3	-57.3
Isles of Scilly (St Mary's)	110	0.1	114	0.1	-3.2
Bournemouth	110	0.1	130	0.1	-15.3
Total UK airports*	122,364	100.0	98,900	100.0	23.7
Total Belfast	3,267	2.7	2,653	2.7	23.1

Source: UK Airports-Annual Statements of Movements, Passengers and Cargo 1994, CAA.

*Includes 65 UK airports.

The regulatory system

4.3. Airports are regulated by the CAA. The CAA was established by the Civil Aviation Act 1971 and is an independent statutory body which provides an ATC service (through NATS), regulates safety standards, issues operating and route licences for airlines and is responsible for the economic regulation of airports in the UK. One of its objectives is the furtherance of the reasonable interests of users and it is also responsible for advising the Government on civil aviation matters in respect of aviation policy and airport needs.

Economic regulation

4.4. Under the 1986 Act, any airport in Great Britain whose turnover exceeds £1 million a year in at least two of the past three financial years must obtain permission from the CAA to levy charges. Such airports are subject to `economic regulation' by the CAA. The 1986 Act does not apply to airports in Northern Ireland, but Part IV of the Airports (Northern Ireland) Order 1994 (SI 1994/426-`the Order'), which closely follows the 1986 Act, makes provision for economic regulation of airports in Northern Ireland. The Belfast airports become subject to economic regulation on 1 March 1996.

4.5. The Order enables the DoE(NI) to `designate' airports for more detailed economic regulation. The only airports in Great Britain which have been designated by the Secretary of State under the 1986 Act are Gatwick, Heathrow, Stansted (BAA's south-east group) and Manchester (SI 1986/1502).

4.6. The Order provides powers for the CAA to impose certain conditions on airport operators when granting permissions to levy airport charges. These conditions essentially concern transparency of reported information. The CAA also has powers to impose such conditions as it considers appropriate on airport operators of designated and non-designated airports either of its own volition or following complaints by, for example, airlines, concerning certain courses of conduct adopted by the airport operator. Such courses of conduct relate to trade practices or pricing policies which are, broadly, discriminatory, financially unsound or which unfairly exploit the airport's bargaining position. It cannot, however, impose overall limits on airport charges for non-designated airports. Before imposing any conditions which the CAA considers appropriate, the CAA must notify the airport operator. If the operator objects the CAA may proceed only by referring the matter to the MMC for investigation and report.

4.7. Designated airports are subject to the imposition of mandatory conditions regarding accounts and airport charges. Each designated airport is subject to quinquennial review by the CAA and, unless otherwise directed by the Secretary of State, by the MMC, for the purpose of setting the formula governing the maximum amount of charges which can be levied by the airport operator. In its 1995 review of the framework of airport economic regulation under the Airports Act, the Department of Transport established criteria for the designation of airports. These included:

- the market position, including the extent of competition from other airports and other modes;

- prima facie evidence of excessive profitability or abuse of monopoly position;

- the scale and timing of investment, and their implication for profitability; and

- the efficiency and quality of service.

Licences

4.8. The CAA, in its role as the regulator of safety standards, issues aerodrome licences. There are two types: a public use licence and ordinary use licence. A public use licence contains the following condition: `The aerodrome is licensed for public use and shall at all times when it is available for the take off or landing of aircraft be so available to all persons on equal terms and conditions.'

4.9. The above condition is not found in an ordinary use licence. An ordinary use licence enables use of the aerodrome only by the holder of the licence and persons specifically authorized by him. The International Airport has a public use licence. The City Airport has an ordinary use licence.

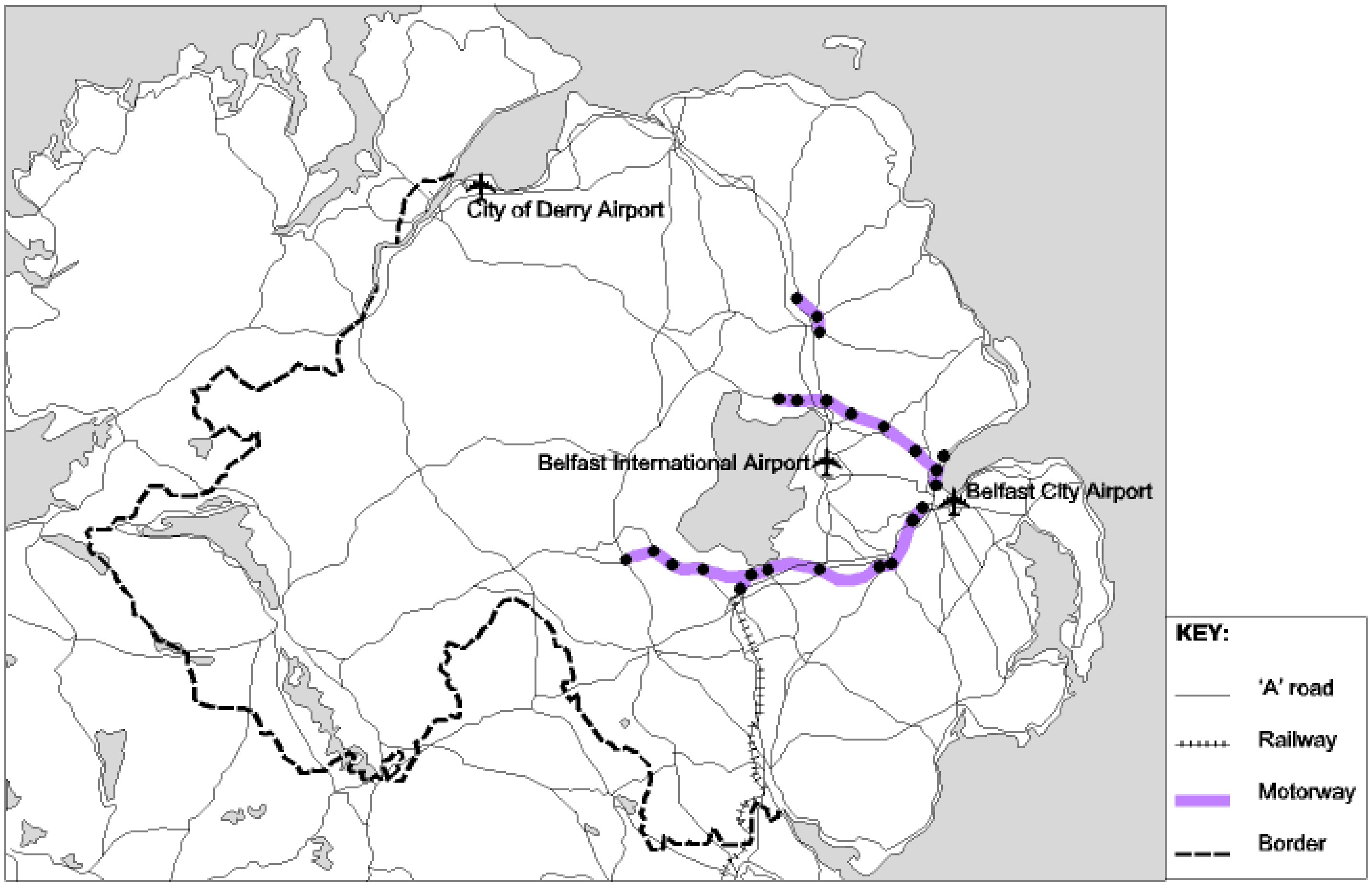
Airport services in Northern Ireland

Background

4.10. There are scheduled flights from three Northern Ireland airports: the International Airport, the City Airport and the City of Derry Airport. Figure 4.1 shows the location of these airports: the International Airport is 13 miles to the west of Belfast as the crow flies and the City Airport is two miles north-east of Belfast city centre. The International Airport is 17 miles by road from the centre of Belfast; the trip takes around 25 minutes by car and 40 minutes by bus. The nearest rail station is four miles away from the International Airport. From the centre of Belfast, travel to the City Airport takes less than ten minutes by car and five minutes by train. Further details of these two airports are provided in Appendices 3.1 and 3.2. The City of Derry Airport is in the north-west of the province, about 70 miles by road from the International Airport and 85 miles by road from the City Airport.

FIGURE 4.1

Location of airports in Northern Ireland

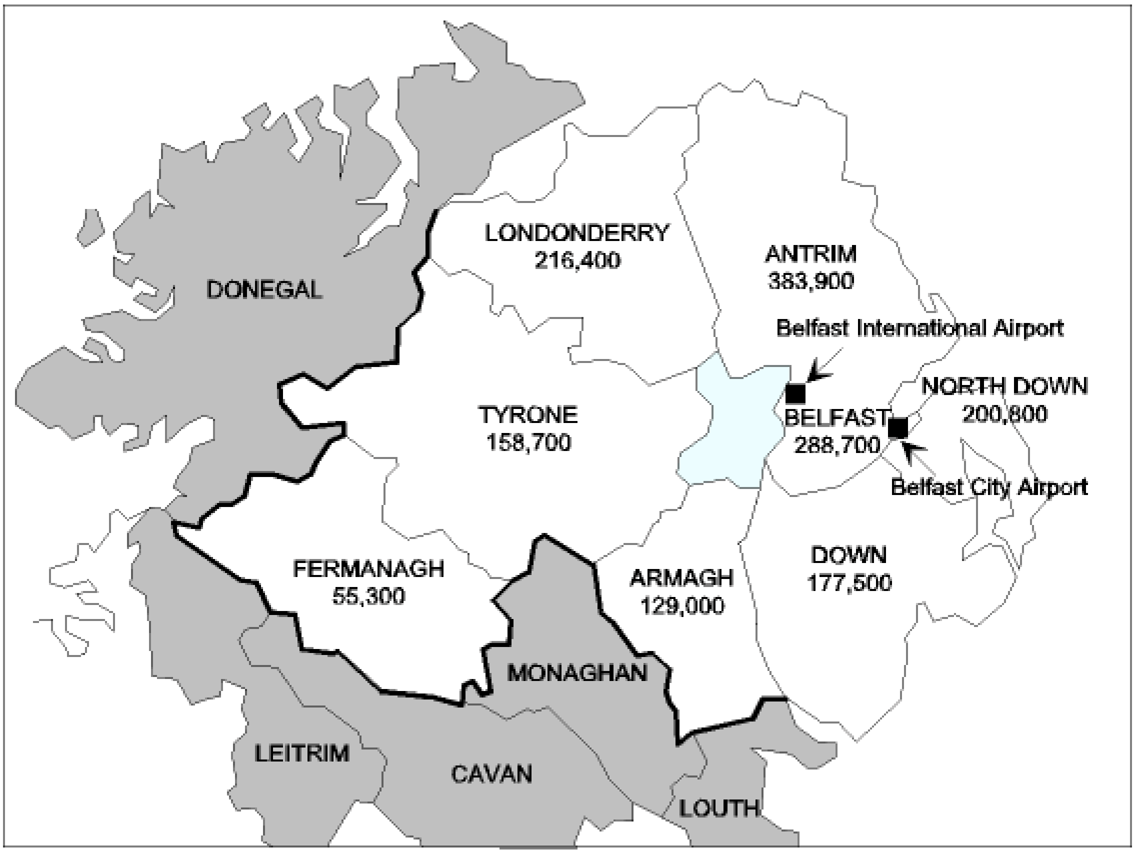


Source: MMC.

4.11. In general, the catchment area of an airport depends on transport links and the modes of transport available. In relation to travel to any particular destination, however, the catchment area will also depend on flight availability to a point near the destination, and the onward travel time from that point. Figure 4.2 shows the population in the counties and districts of Northern Ireland and the north of the Republic of Ireland. BIA said that for charter and international flights, the International Airport's catchment area was likely to be Northern Ireland plus a material part of the Republic (see para-graph 6.17). Shorts told us that it thought the catchment areas for each of the Belfast Airports covered the whole of the province (see paragraph 6.56).

FIGURE 4.2

Belfast airports catchment



Source: General Register Office.

Note: Populations illustrated by county/district. Population of shaded counties = 350,000.

4.12. As stated in Chapter 3, the International Airport has operated commercial flights for many years, having been established some 30 years ago, while the City Airport started commercial operations in 1983. The International Airport can accommodate up to 3.5 million passengers a year, and can take all sizes of civil aircraft currently operating. In contrast, facilities are cramped at the City Airport at peak periods, there are environmental restrictions on the number and size of aircraft that it can take, and the runway and apron would need investment to carry, on a regular basis, aircraft with a capacity of more than 120 passengers.

4.13. When the City Airport was starting up, about two-thirds of the passengers on domestic flights from the International Airport were travelling to London (see Figures 4.7 and 4.8), and BIA told us that operators of smaller aircraft that wanted to make regional flights were discouraged (see paragraph 6.2). The City Airport initially concentrated on developing flights to the UK's regional airports. More recently, carriers at the City Airport have been able to develop London routes. A Manx attempt to break into the Heathrow market flying from the City Airport was withdrawn in 1994.[1] However, there has been successful development of routes from the City Airport to Gatwick and Luton since 1993. By 1994 the City Airport was the starting point for two-thirds of all passenger journeys from Northern Ireland to the UK regional airports, and had also gained just under a third of the London passengers. A route to Gatwick was due to start from the International Airport on 23 November 1995, but has now been postponed.

Analysis of turnover of airports in Northern Ireland

4.14. Table 4.2 analyses the turnover of the three airports in Northern Ireland from which scheduled flights are provided. The analysis is based on BIA's and BCA's last complete financial years, viz those ended on 31 March 1995 and 31 January 1995 respectively; [*Details omitted. See note on page iv.*]. At the International Airport some services are contracted out and billed direct to the airlines by contractors. The most notable of these is Servisair plc which provides ramp services to all airlines except BA which provides its own. Servisair's charges amount to between £2 and £4 per arriving passenger. We have taken an average of £3 and applied a notional £1.50 per passenger to BIA's annual throughput of 2.04 million passengers so as to arrive at a value for all ramp services provided at the International Airport, as shown in the table. On this basis, BIA supplied about 63 per cent of airport services in Northern Ireland and BCA 26 per cent; together they provide 89 per cent. Core activities accounted for 73 per cent of BIA's business and for 87 per cent of BCA's business; and domestic scheduled traffic accounted for 58 per cent of BIA's core business and 96 per cent of BCA's core business.

Shares of airport passenger services

4.15. Table 4.3 shows that the Belfast airports supplied 99 per cent of airport passenger services in 1994.

[1]The Heathrow slots were at inconvenient times, and were taken back by the parent company, ABH, to give to BM more profitable routes (see paragraph 5.57).

TABLE 4.2 **Northern Ireland airports: turnover analysis for latest financial year***

	International Airport					*BCA*			*City of Derry Airport*		*Total*	
	BIA			*Ramp services*								
	£'000	*%*	*%*	*£'000*	*%*	*£'000*	*%*	*%*	*£'000*	*%*	*£'000*	*%*
Core services												
Scheduled domestic passengers	[											
International passengers												
Freight and other												
Total core services												
Ancillary services						*Figures omitted. See note on page iv.*						
Rents												
Concessions, inc car parks												
Other												
Total ancillary												]
Total all sources	22,803	100		3,060	0	9,225	100		1,000	100	36,088	100
Percentage of total	63			8		26			3		100	

Source: BIA and Shorts/MMC analysis.

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*BIA's financial year ended on 31 March 1995 and BCA's on 31 January 1995. [*Details omitted. See note on page iv.*]
†Analysis not available. The City of Derry Airport handles 150 tonnes of freight a year.

TABLE 4.3 **The supply of airport passenger services in Northern Ireland, 1994**

	Passenger numbers	
	m	*%*
International Airport	2.04	62
City Airport	1.23	37
City of Derry Airport	0.03	1
Other airstrips	*	-
Total	3.30	100

Source: CAA.

*Negligible.

4.16. Domestic scheduled services account for about 80 per cent of Northern Ireland airport passenger services and are the one significant area of overlap between the Belfast airports. Table 4.4 shows airports' shares of these services in 1994.

TABLE 4.4 **The supply of domestic scheduled passenger services in Northern Ireland in 1994**

	Passenger numbers	
	m	*%*
International Airport	1.41	53
City Airport	1.22	46
City of Derry Airport	0.03	1
Total	2.66	100

Source: CAA.

4.17. Passenger numbers at the International Airport declined by 5 per cent between 1989 and 1994, while those at the City Airport grew by 142 per cent. However, these trends appear to have changed in 1995: in the first nine months of the year 1.9 million passengers (1.2 million domestic passengers) passed through the International Airport, and 0.9 million through the City Airport, increases of 16 per cent and 1 per cent respectively over the equivalent months in 1994.

4.18. The Belfast airports' high proportion of domestic[1] traffic reflects the fact that Northern Ireland is separated from the rest of the UK by the Irish Sea: the proportion is just 21 per cent for UK airports on average, and 38 per cent for UK airports excluding the London airports (Table 4.5). This amounts to 1.6 domestic flights per inhabitant for Northern Ireland, compared with 0.45 flights per inhabitant for the UK as a whole. In effect passengers to and from Northern Ireland are using air transport on trips of a kind that would, elsewhere in the UK, be made by train or by car.

TABLE 4.5 **Passenger traffic mix at various airports, 1994**

per cent

	Domestic		*International*		*Total*
	Scheduled	*Charter*	*Scheduled*	*Charter*	
Belfast airports	80	0.2	2	18	100.0
All UK airports	20	0.6	53	26	100.0
UK airports excluding London airports	36	1.6	19	43	100.0

Source: UK Airports-Annual Statements of Movements, Passengers and Cargo 1994, CAA.

4.19. The number of domestic passengers through the Belfast airports grew at an average of 7 per cent a year between 1983 and 1994 compared with 5 per cent for all UK airports.

[1]ie within the UK, the Channel Islands and the Isle of Man.

TABLE 4.6 **Growth in number of passengers on domestic flights**

			per cent a year
	1983 to 1989	*1989 to 1994*	*1983 to 1994*
City Airport	36	19	28
International Airport	7	-4	2
Belfast total	10	3	7
UK total	8	2	5

Source: CAA airport statistics.

4.20. Almost all the international flights from Belfast are charter flights from the International Airport. The Northern Ireland market has not succeeded in supporting more than a few international scheduled flights, as shown in Table 4.5. Most passengers travelling overseas transfer to an international flight at a London airport or Manchester. In contrast, for the UK as a whole, about two-thirds of international flights are scheduled and one-third charter. Even excluding flights to and from the London airports, a third of UK international flights are scheduled.

Modes of transport for travel to and from Northern Ireland

Overview

4.21. Northern Ireland differs somewhat from the UK as a whole in demographic and other respects. The population of Northern Ireland has grown by 4 per cent since 1988, faster than the 2 per cent of the UK as a whole. As a result, the population is slightly younger than that of the UK, but the proportion of the people of working age is about the same. Average earnings in Northern Ireland have increased steadily since 1988 in real terms, but are still substantially less than average earnings for the UK as a whole. However, significant numbers of people from Northern Ireland have found jobs in Great Britain, providing an additional market for flights to visit friends and relatives.

4.22. Northern Ireland has a population of 1.6 million. In 1993, 5.8 million people entered or left Northern Ireland using public transport[1] (see Table 4.7 and Figure 4.3). Of these, 53 per cent travelled by air, 38 per cent went by sea, and the remaining 9 per cent travelled on the Belfast-Dublin rail link. No data are available on the numbers using private transport.

[1]Excluding buses and coaches.

TABLE 4.7 **Passengers entering and leaving Northern Ireland by public transport**

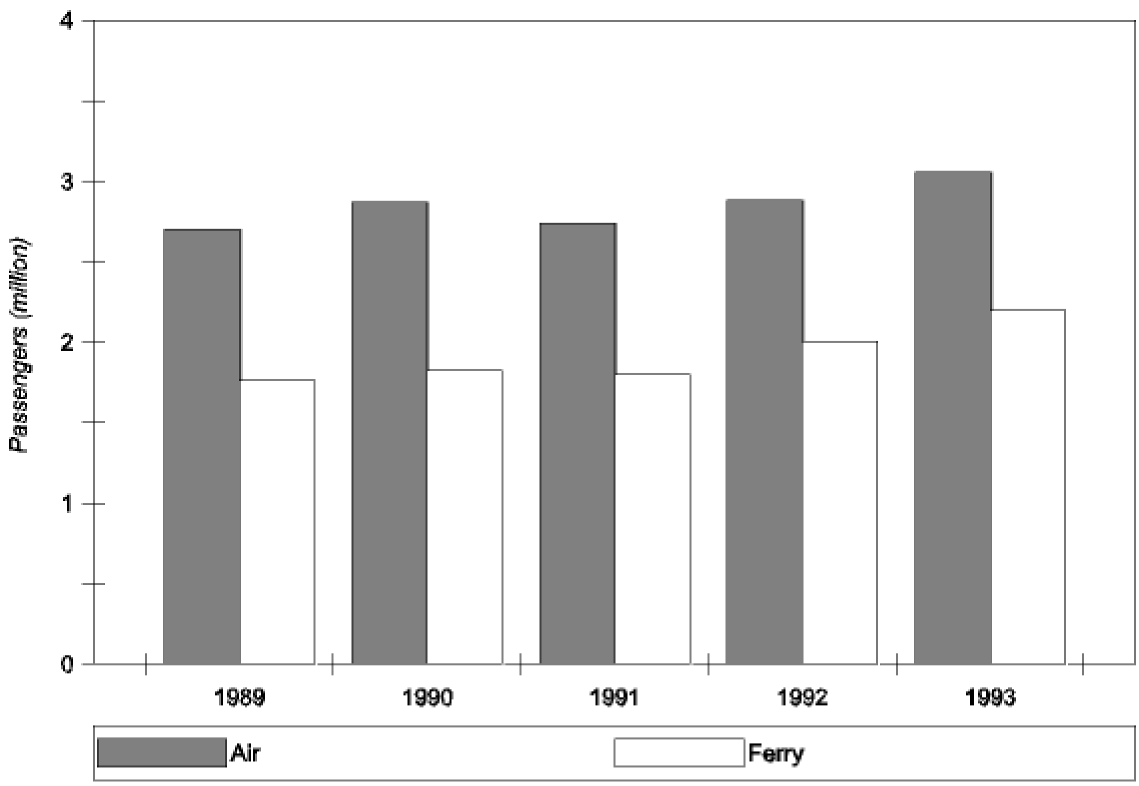
'000 passengers

	1989	*1990*	*1991*	*1992*	*1993*	*Growth pa 1989-93 %*
International Airport	2,186	2,295	2,169	2,246	2,181	-0.1
City Airport	501	539	534	611	845	14.2
City of Derry Airport	17	39	35	28	31	16.2
Total by air	2,704	2,873	2,738	2,885	3,057	3.1
Total by ferry	1,767	1,823	1,801	2,014	2,197	5.6
Rail (Belfast-Dublin)	345	327	477	490	541	11.9
Grand total	**4,816**	**5,023**	**5,016**	**5,389**	**5,795**	**4.7**
			Proportion of total, per cent			
International Airport	45	46	43	42	38	
City Airport	10	11	11	11	15	
City of Derry Airport	0	1	1	1	1	
Total by air	56	57	55	54	53	
Total by ferry	37	36	36	37	38	
Rail (Belfast-Dublin)	7	7	10	9	9	
Grand total	**100**	**100**	**100**	**100**	**100**	

Source: Northern Ireland Tourist Board.

FIGURE 4.3

Passengers entering and leaving Northern Ireland



Source: Northern Ireland Tourist Board.

4.23. Two-thirds of the passengers at the International Airport travelled on domestic flights. Airlines at the City Airport principally provide scheduled domestic flights: of the 1.23 million passengers in 1994, less than 1 per cent flew on charter flights or to international destinations. Nearly all of the sea travel from Northern Ireland is destined for ports in Great Britain.

4.24. Some people may drive or take the train from Northern Ireland to the Republic and then travel from ports and airports there, but no data on such journeys are available. Nor are there any firm data on residents of the Republic of Ireland who fly from airports in Northern Ireland.[1]

Airports in the Republic of Ireland

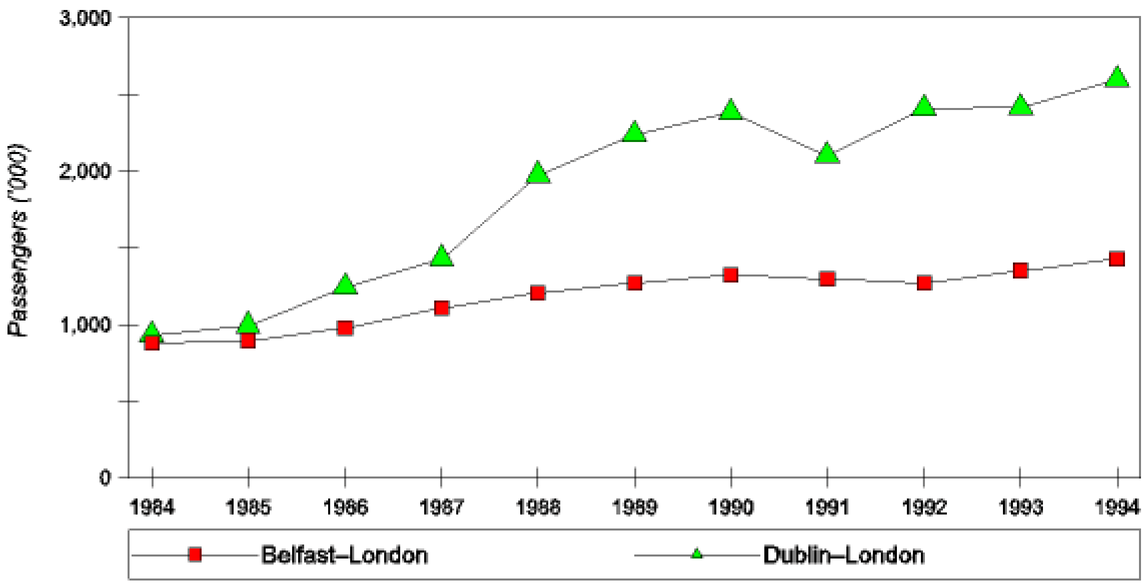
4.25. There are nine airports in the Republic which operate scheduled services: of these, Dublin Airport is much the biggest. The airports in the Republic are relevant to our inquiry in two ways: they are potential competitors for the Belfast airports; and we can use them as comparators when considering the possible demand for air services in Northern Ireland.

4.26. In 1994, 8.8 million passengers flew in or out of the Irish Republic, of which 5.1 million passengers flew to or from the UK. The number of flights per head of population was 2.4, compared with 2 in Northern Ireland. Over 80 per cent of the flights to the UK flew from Dublin Airport. The total passenger throughput of Dublin Airport grew by 7 per cent a year between 1990 and 1994; passenger numbers to the UK grew at a similar rate.

4.27. On the Dublin-London routes, there has been aggressive competition between airlines between 1986 and 1994. Ryanair entered this market in 1986, offering cheap flights to Luton and high frequencies. Aer Lingus Plc, BA, and the other airlines flying to London responded with fare reductions, and this led to a marked increase in the number of passengers carried (Figure 4.4). Although BA gave up its London-Dublin route in 1991, the market continued to grow. Passenger numbers between Dublin and the London airports grew by 180 per cent between 1984 and 1994, compared with growth of 52 per cent for Belfast-London flights over the same period.

FIGURE 4.4

Belfast–London air traffic compared with Dublin–London



Source: BAA and CAA airline statistics.

[1]However, BIA told us that its observation of the airport car park suggested that around a quarter of cars had number plates from the Irish Republic (paragraph 6.17).

4.28. Dublin Airport is located six miles from Dublin City centre, and is served by two bus services and a taxi service. Trains from Belfast to Dublin city centre take two to three hours; the facilities are currently being upgraded. The driving time from Belfast City to Dublin Airport is approximately 2¼ hours, assuming no wait at the border (border delays have declined significantly since the cease-fire).

4.29. Such travel times between Belfast and Dublin are high compared with the duration of a typical domestic flight. This suggests that, for the majority of the population,[1] domestic scheduled flights from Dublin are not a close substitute for flights from Belfast. This is not inconsistent with data on passenger numbers, which suggest that some residents of Northern Ireland travel overland to Dublin Airport for international flights because the relative travel times for international journeys, as between the flight and travel to the airport, are different.

Sea transport

4.30. We also need to consider whether sea travel from Northern Ireland constitutes a separate market for the purposes of this inquiry. There are six commercial ports in Northern Ireland. The largest two are Belfast and Larne which are the only ports with regular passenger services.

4.31. The Port of Belfast is just half a mile west of the City Airport. Passenger transport at the Port of Belfast ceased in October 1990, but recommenced in 1992 with the introduction of the SeaCat catamaran service to Stranraer, and a limited passenger service to Liverpool. The SeaCat offers four or five daily crossings to Stranraer, and takes 90 minutes. It can carry 430 passengers and 80 cars. The standard return fare for a foot passenger is around £45,[2] while a car with two adults and up to three children costs £240 to £350 return, depending on the time of year. There is one sailing every other day to Liverpool. Stena Sealink transferred its Northern Ireland operation from Larne to Belfast on 12 November 1995 offering eight passenger and freight sailings daily between Belfast and Stranraer along with one sailing for freight only.

4.32. The Port of Larne lies 20 miles north of Belfast, and provides passenger services to Stranraer taking around 2¼ hours. P&O offers four to six sailings a day. The return fare from Larne to Stranraer for a foot passenger is around £40 on an open ticket,[3] and £30 for a five-day return. The open return fare for a car with up to five passengers is £230 to £300 depending on the time of year, declining to £130 to £170 for a five-day return. Fares have decreased in real terms since the introduction of the SeaCat service.

4.33. Figure 4.3 shows that the total number of sea passengers increased by 5.6 per cent a year between 1989 and 1993, with much of this growth taking place in 1992 and 1993, after the SeaCat service started.

4.34. Sea travel is particularly suitable for people who want to take a car and is also an attractive option for people travelling to areas close to Stranraer and Liverpool. The Prestwick service instituted recently from the City Airport is a potential competitor for the SeaCat service. However, the great majority of passengers flying from the Belfast airports do not fly to destinations near Stranraer, and their travel time would be increased very substantially if they switched to travelling by boat. The service by sea to Liverpool is limited and takes much longer than the frequent air services to Manchester. We conclude that there is only limited scope for substitution between the market for flights from Belfast and the market for sea travel.

Competition between airports

Customers of airports

4.35. Airlines are the direct customers of airports for their core services, not passengers, as it is airlines which decide whether to operate a route and pay the airport charges. For all but the largest UK airports,

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[1]Belfast and Dublin may be realistic substitutes for a limited number of people near the border who live within reach of both.

[2]Students and OAPs pay around two-thirds of the adult fare.

[3]Students and OAPs pay half the adult fare.

charges for core airport services provide the majority of revenue. However, the airlines' choice of routes and airports depends ultimately on passenger demand.

Demand for airport services

4.36. One can distinguish between passengers' demand for airport services and airlines' demand for them. Passengers' preferences for particular airports depend primarily on availability of flights, and on location: which airports are the quickest, most convenient and cheapest to get to. Airports can also be favoured by passengers because of facilities provided by airlines. Business passengers, in particular, are attracted to airports with regular schedules, good flight connections, frequent departures to their destination, and rapid check-ins. Passengers may also value the availability and quality of particular services at airports, such as car parks and shops.

4.37. Airlines' choice of routes is largely driven by their assessment of passenger demand. Airports can further attempt to interest airlines in their services by setting and structuring airport charges in such a way that the airport is carrying some of the airline's risk;[1] by actively marketing the flight opportunities available from the airport; and by offering airlines particular services, such as earmarked lounges, office space, ticketing and check-in services, or advertising opportunities. These inducements may be particularly useful to small start-up airlines, which seek to operate with minimal fixed costs.

Airports: cost structures and barriers to entry

4.38. Airports have high fixed costs and very low marginal costs. This arises primarily because:

- the cost of extending the capacity of an airport tends to be in large, indivisible chunks, such as building a new runway or a new terminal; and

- operating costs are largely fixed, until maximum capacity is reached; a terminal needs to be heated, lit, maintained and staffed, even if the number of passengers using it is well below full capacity.

4.39. Furthermore, there are few opportunities for new airports, and investment in them is risky, as it is difficult to forecast demand at a new location. It can also be difficult to obtain planning permission for a suitable site for an airport. There are, then, significant barriers and disincentives to the establishment of new airports, though these may be reduced if there is funding and support from the Government. In practice, Government support is often dependent on existing airports expecting severe capacity constraints.

Airlines: cost structure and strategies

4.40. For an airline the cost of each flight is largely fixed; costs increase very little for each extra passenger. This means that the profitability of a route is highly dependent on the average load factors.

4.41. Scheduled airlines tend to incur fixed costs at each airport from which they operate, as they usually need staff located at each airport for activities such as aircraft maintenance, check-in, ticketing and administration. The dominant airlines at an airport also often want to provide services that are separate and carry their own distinctive logo (such as check-in facilities or departure lounge).

4.42. There are several implications of these cost structures for an airline's preferred configuration of routes:

- An airline may not want to operate out of two airports which are very close to one another and serve identical markets.

- It is costly and risky to develop new routes.

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[1]Levying lower charges when the route is less profitable. The simplest way of doing this is setting charges according to passenger numbers, rather than charging on the basis of tonnage.

- It may be more expensive or risky for an airline to start operating a new route if another airline is already providing flights on that route, especially if the incumbent airline has an established reputation on the route. Where two airlines fly the same route, this limits the scope for both to benefit from providing a frequent service, unless their services are effectively co-ordinated (as, for example, are those of BA and BM on the International Airport-Heathrow route).

- Once an airline has established a route from a particular airport, it may be reluctant to move its flights to a different nearby airport, as it may then again face some of the costs and risks of establishing a new route.

Airport charges

4.43. It is difficult to compare the charges at different airports because:

- although airports are required to publish their charges, they may offer discounts; and

- airport charges cover different services at the different airports.

4.44. We have, therefore, considered airport charges from three different perspectives: the published charges, the average revenue actually received and the proportion that airport charges constitute of airlines' costs.

4.45. The published charges are either based on the tonnage of the aircraft or the number of passengers or both. In order to try and compare like with like, we have calculated the average charge per passenger on a range of aircraft, assuming that each carries 70 per cent of its full capacity, and excluded charges for general aviation, freight, mail and military flights. This analysis suggests that the published charges at the International Airport amount to around £7 per arriving or departing passenger for domestic flights, while the published charges at the City Airport are around £6.50 per arriving or departing domestic passenger. The International Airport contracts out several core airport services, while charges at the City Airport include almost all such services.[1] At the International Airport, airlines[2] pay contractors around £3 per arriving passenger for these contracted-out services; this sum needs to be added to the published charges at the International Airport when comparing the charges at the two airports.

4.46. The City Airport views its published charges as being applicable only to general aviation and diverted flights. In the case of scheduled users, an all-inclusive charge is negotiated, based solely on the number of passengers. For some flights, there is a fixed charge per passenger until the total number of passengers in the preceding year is reached, and then a second, lower, charge per passenger for each additional passenger. This assists airlines that are growing fast. For other flights a flat rate is charged per passenger. Both airports can provide special rates for new routes.

4.47. We have also looked at the average airport charge per passenger. This can only provide an approximate basis for comparing charges at different airports because it does not distinguish between different types of flight which have differing revenue streams and costs per passenger (such as domestic and international flights) or take account of the mix of aircraft of different sizes.

4.48. The average airport charge per arriving or departing passenger at each of the Belfast airports is around £8 per passenger[3]-a similar level to other comparable airports in the UK.[1] However, as noted in

[1]As noted in paragraph 4.16 and in Chapter 3, at the International Airport the airport charges cover airfield and terminal maintenance, security, lighting and heating, fire service, and porterage. Airlines pay additional charges to third parties for carrying out ramp services (including baggage handling), aircraft cleaning, catering, and refuelling. At the City Airport, charges cover all services to the airlines except catering and refuelling, which are currently contracted out. Aircraft parking at both is free for the first two hours.

[2]Other than BA which provides its own ramp services.

[3]This figure is the average charge for an ingoing or outgoing passenger; it needs to be doubled to be comparable with the published charges.

paragraph 4.45, when comparing charges at the two Belfast airports we should add £1.50[2] to the charges at the International Airport. A comparison with the published charges suggests that there is not much discounting at the International Airport or at those mainland airports which were considered,[3] but that published charges at the City Airport are discounted somewhat.

4.49. We received a breakdown of airlines' operating costs from three airlines and the industry consultants employed by BIA. On the London-Belfast route, airport and handling costs fell in the range 25 to 30 per cent of total operating costs, excluding directly attributable overheads.[4] Three airlines provided us with similar data for their short-haul routes as a whole, and the proportion of total costs represented by airport charges was very similar to that for the Belfast route.

4.50. The information discussed above is insufficient to allow us to draw clear conclusions about the relative level of airport charges at different airports.

Air traffic to and from Northern Ireland

4.51. Figure 4.5 shows that total passenger numbers through the Belfast airports have grown fairly steadily since 1986. Within this total, the volume of traffic through the International Airport rose until 1990 and then fell, as a result of a decline in domestic flights, while the traffic through the City Airport rose steadily throughout the period. As noted above, the City Airport carries an insignificant volume of international flights. The volume of cargo through the International Airport was similar in 1994/95 to that in 1987/88 (Figure 4.6).

4.52. Table 4.8 shows estimates of the split between business and leisure passengers, from several CAA airport surveys. It suggests that on average the City Airport has a slightly higher proportion of business passengers than the International Airport, but this varies depending on the destination.

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[1]As the Belfast airports have not been subject to economic regulation, their accounts do not distinguish between airport charges-using the definition in the 1986 Act-and other charges.

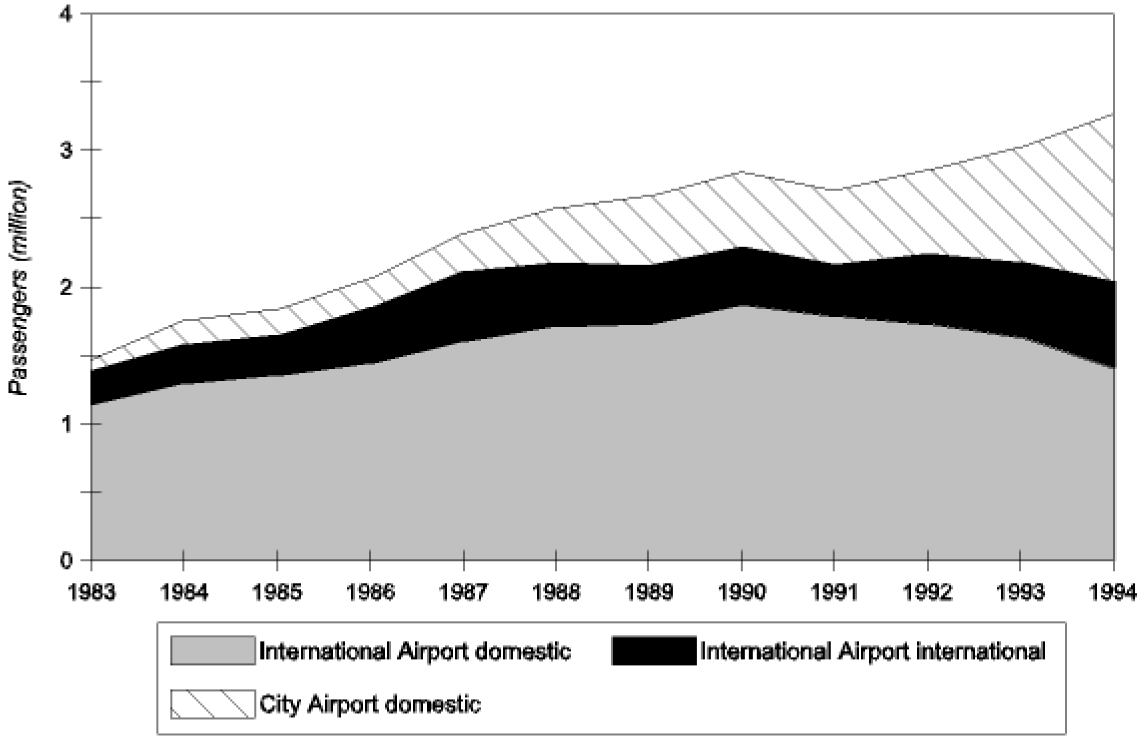
[2]Half of the cost given in paragraph 4.45, because that figure was paid only for arriving passengers.

[3]Birmingham, East Midlands, Newcastle and Teesside airports.

[4]These overheads varied widely, indicating an inconsistency in composition, so we excluded them altogether: they ranged from 1 to 15 per cent of total.

FIGURE 4.5

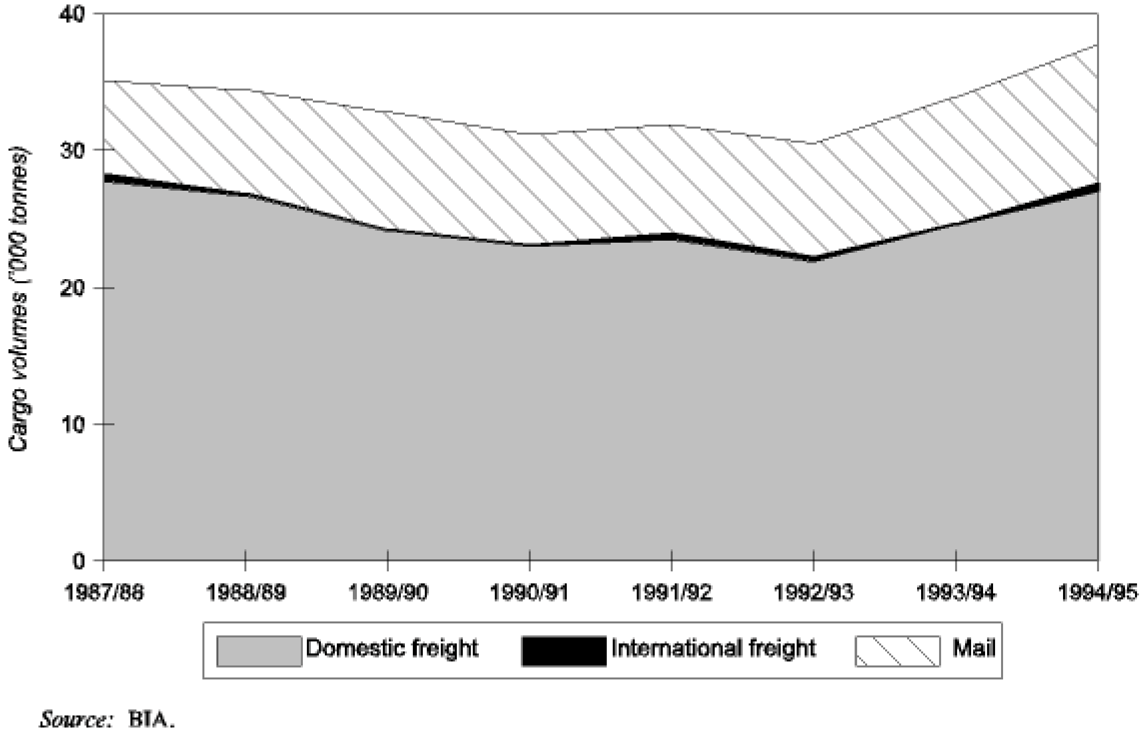
International and domestic passengers flying from City Airport and International Airport



Source: CAA airport statistics.

FIGURE 4.6

Cargo from the International Airport



Source: BIA.

TABLE 4.8 **Breakdown between business and leisure passengers**

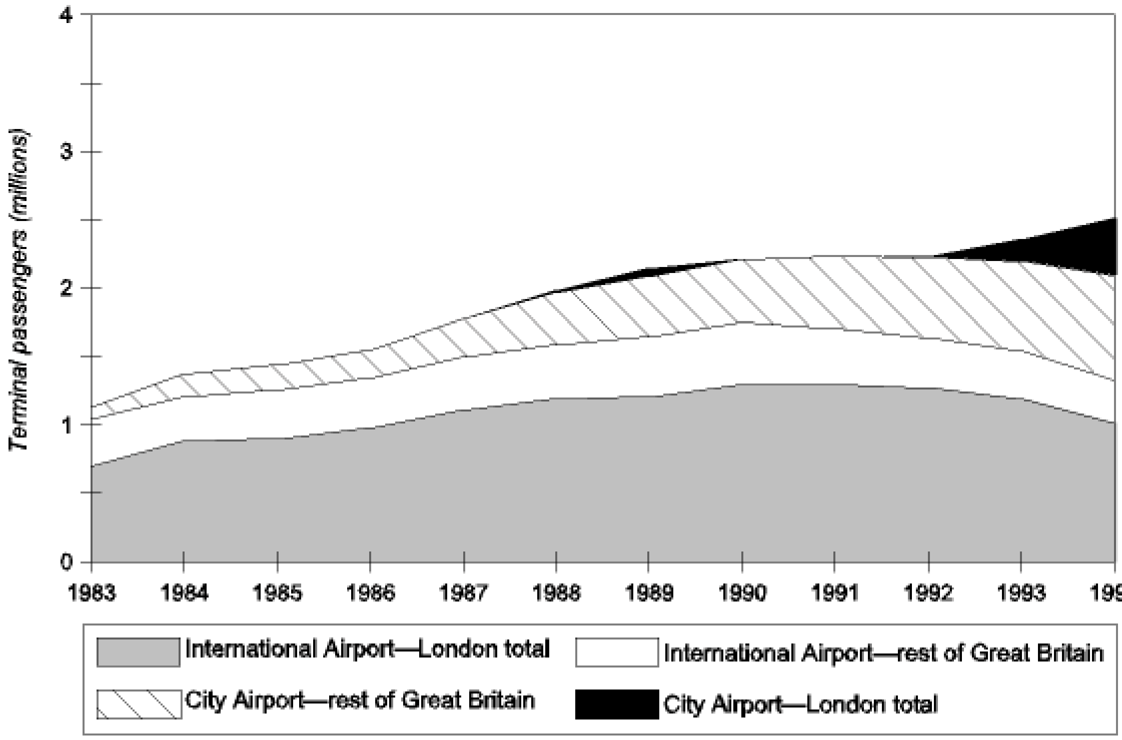
					'000
		Estimated passengers			
		International Airport		*City Airport*	
		Business	*Leisure*	*Business*	*Leisure*
Glasgow	1990	26	26	-	-
Edinburgh	1990	-	-	43	23
Heathrow	1991	54	62	-	-
Gatwick	1991	6	14	-	-
Luton	1991	23	148	-	-
Birmingham	1992	61	68	59	40
East Midland	1992	56	48	42	25
Leeds	1992	2	5	44	21
Manchester	1992	154	152	134	86
Newcastle	1994	1	1	26	20
Teesside	1994	-	-	6	4
Southampton	1994	-	-	3	9
Exeter	1994	-	-	3	10
Bristol	1994	-	-	21	20
Cardiff	1994	-	-	7	7
		383	524	388	265
					per cent
Glasgow	1990	50	50	-	-
Edinburgh	1990	-	-	65	35
Heathrow	1991	47	53	-	-
Gatwick	1991	30	70	-	-
Luton	1991	13	87	-	-
Birmingham	1992	47	53	60	40
East Midland	1992	54	46	63	37
Leeds	1992	29	71	68	32
Manchester	1992	50	50	61	39
Newcastle	1994	50	50	57	43
Teesside	1994	-	-	60	40
Southampton	1994	-	-	25	75
Exeter	1994	-	-	23	77
Bristol	1994	-	-	51	49
Cardiff	1994	-	-	50	50
		42	58	59	41

Source: CAA surveys.

4.53. Figure 4.7 illustrates the split between passenger numbers travelling to London and those travelling elsewhere. In 1986 half of all domestic flights originating in Belfast were from the International Airport to London, and 90 per cent of these were to Heathrow. As already discussed, the City Airport grew first with the development of services to the UK regional airports, and then, in 1993 and 1994, successfully broke into the London market. In 1994 Heathrow remained the destination of more than 70 per cent of the domestic passengers from the International Airport.

FIGURE 4.7

Air travel from Belfast to Great Britain, broken down by Belfast airport



Source: CAA airline statistics.

4.54. Figure 4.8 shows the breakdown of passengers at both airports to and from London. As new routes were developed to Gatwick and Stansted, the growth in traffic to Heathrow and Luton was dampened. For Midlands and northern English airports,[1] there has been less switching between destinations (Figure 4.9). However, Figures 4.10 to 4.13 suggest that, for each of the Midlands and northern destinations in the years up to 1994, there has been a considerable amount of switching from the International Airport to the City Airport.

4.55. We now consider the periods for which two airlines have operated services to the same destination at the same time, either from the same Belfast airport or from each of the Belfast airports.[2]

4.56. Between 1990 and 1994 there were six routes on which two carriers provided a substantive[3] service to the same destination from the same airport at the same time, during any one or more years. There were four such routes from the City Airport and two from the International Airport.

4.57. Between 1990 and 1994 there were also ten routes on which two carriers provided a substantive service to the same destination at the same time, one from each of the Belfast airports, during any one or more years.[4] However, in only three of these cases were significant numbers of passengers maintained on

[1]Birmingham, East Midlands, Manchester, Leeds/Bradford.

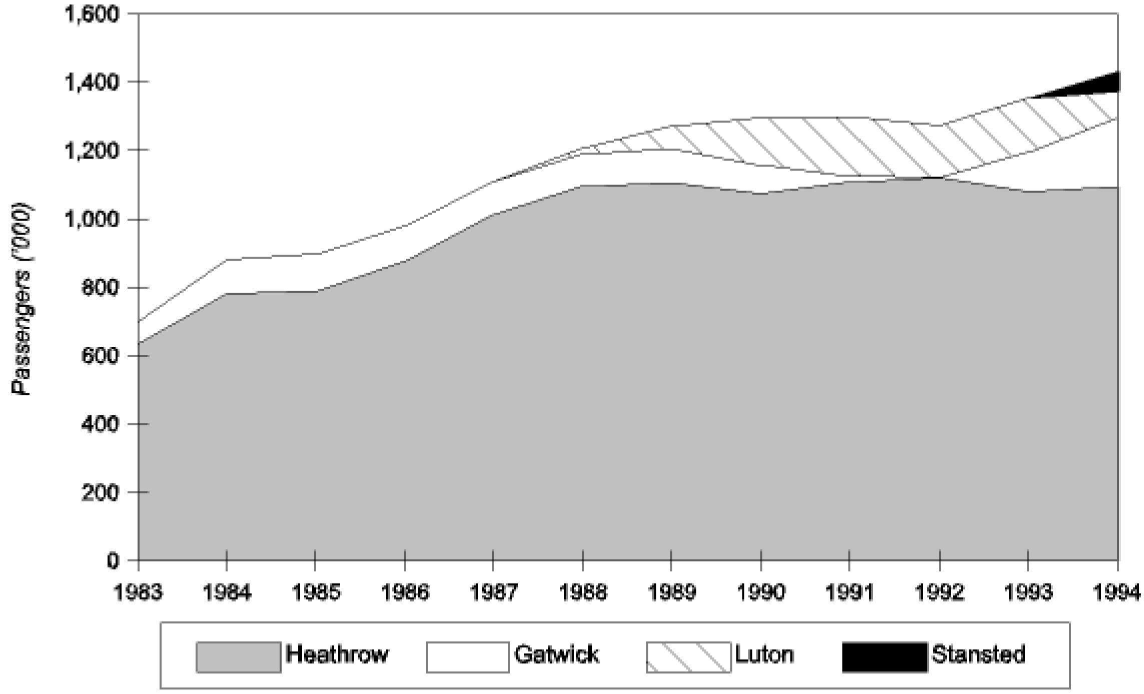
[2]We only have data giving a breakdown by route and airline from 1990; the following paragraphs therefore relate to the calendar years 1990 to 1994.

[3]We treat a route by an airline as being substantive in respect of a calendar year if it carries at least 2,000 passengers in that year.

[4]This excludes the Heathrow route, which had two carriers providing a substantive service from the International Airport throughout the period; there was also a flight to Heathrow from the City Airport in 1993 and 1994.

FIGURE 4.8

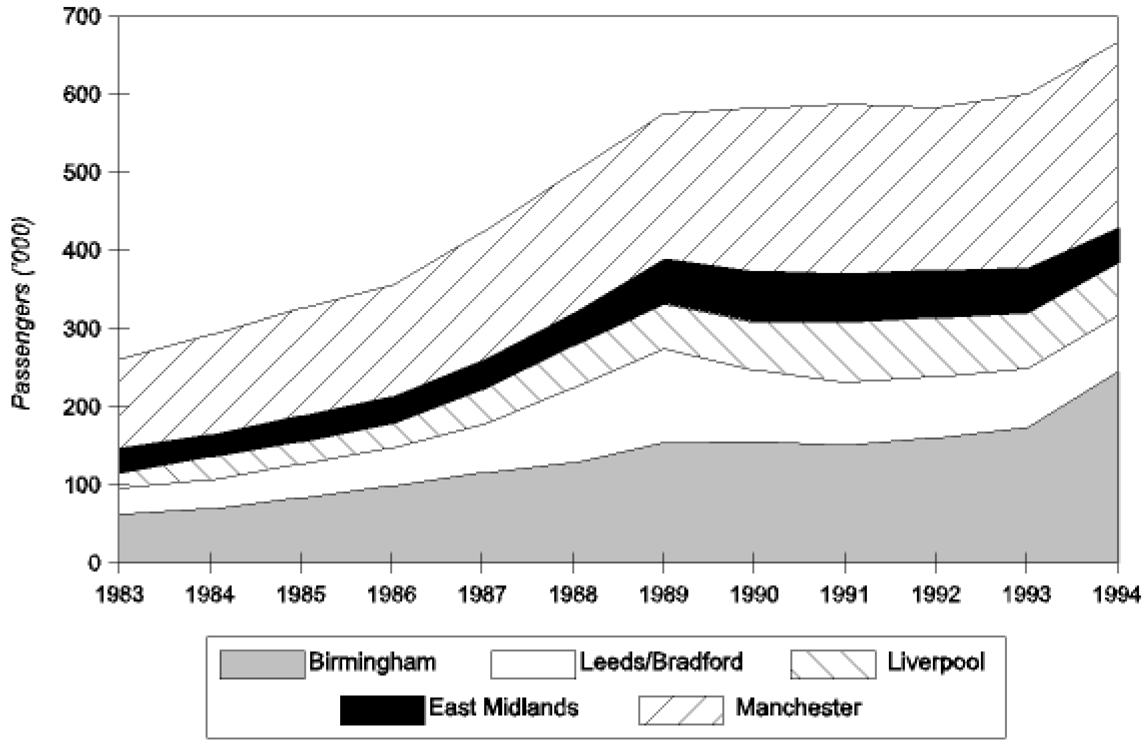
Flights from Belfast to London airports



Source: CAA airline statistics.

FIGURE 4.9

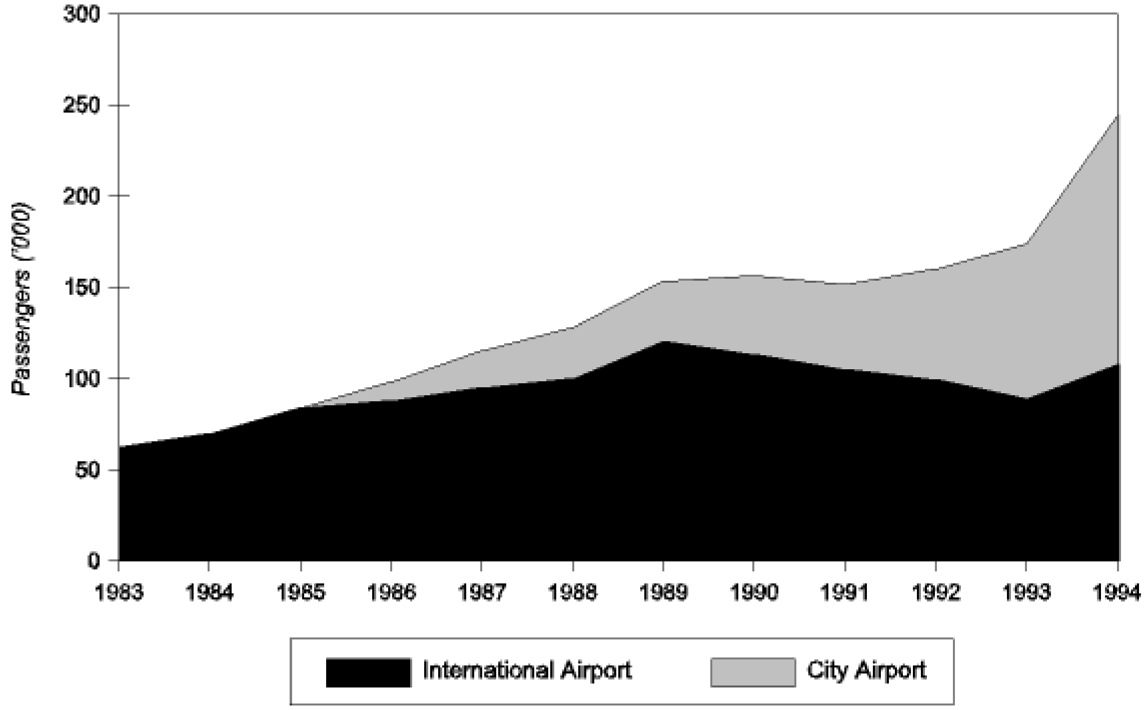
Belfast to major Midlands and northern English airports



Source: CAA airline statistics.

FIGURE 4.10

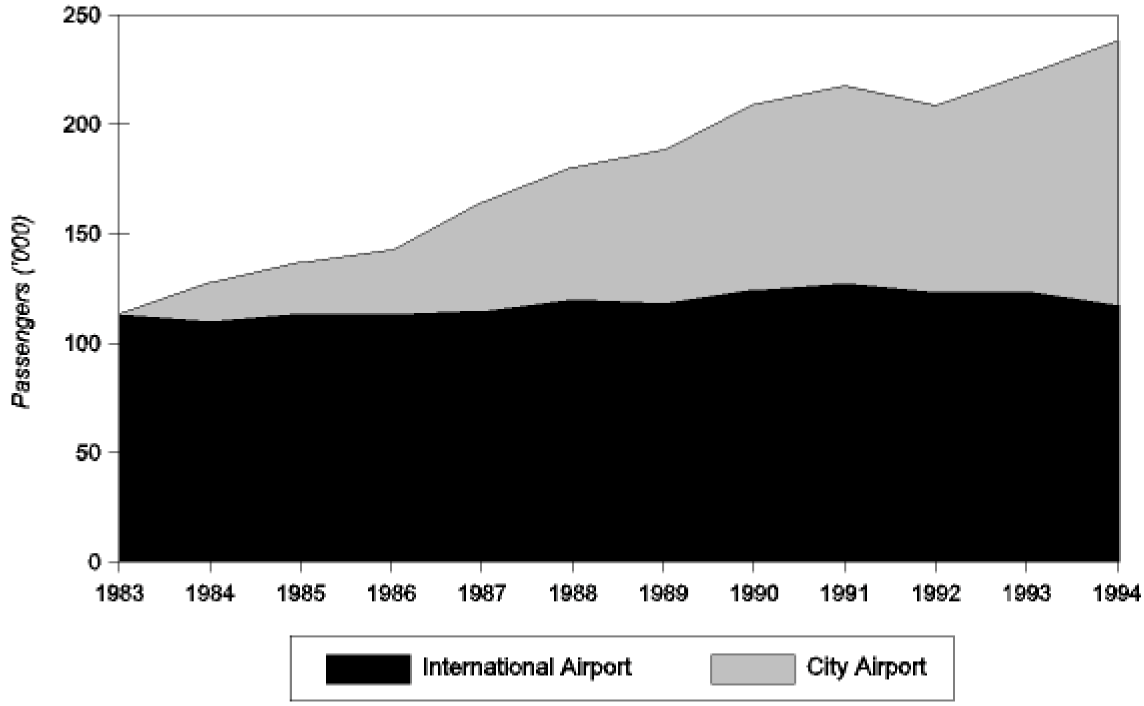
Breakdown of travel by Belfast airport—Birmingham



Source: CAA airline statistics.

FIGURE 4.11

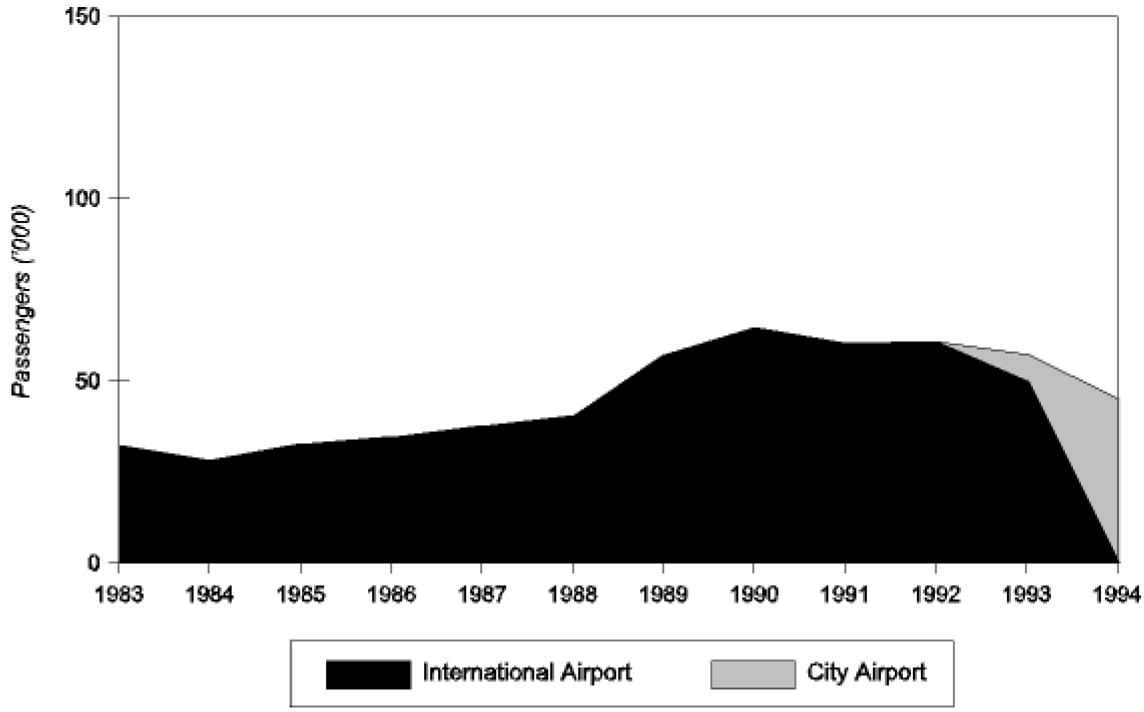
Breakdown of travel by Belfast airport—Manchester



Source: CAA airline statistics.

FIGURE 4.12

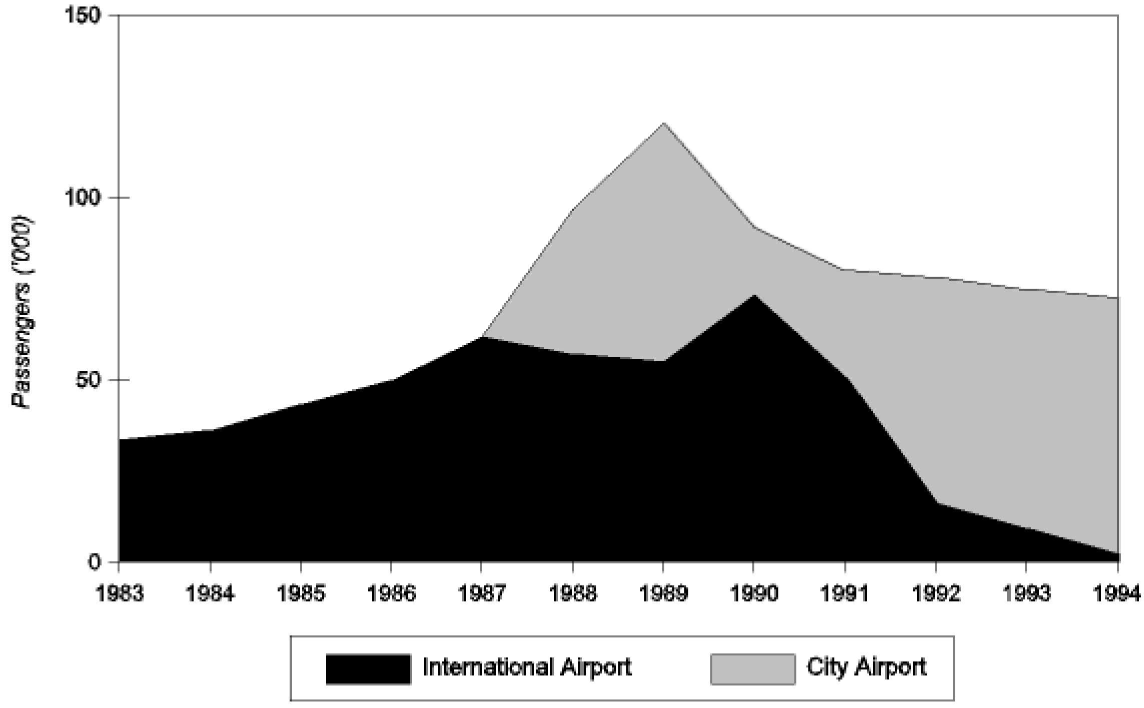
Breakdown of travel by Belfast airport—East Midlands



Source: CAA airline statistics.

FIGURE 4.13

Breakdown of travel by Belfast airport—Leeds/Bradford



Source: CAA airline statistics.

routes from both Belfast airports-Manchester, Birmingham and Glasgow.[1] There is substantial demand on all three of these routes. On the other seven routes, one or other of the two Belfast airports became dominant. The City Airport serves all, or a significant majority, of flights to six of the destinations, while the International Airport dominates flights to one. The City Airport has also picked up traffic going to Cardiff and Gatwick-both airports that were initially served by flights from the International Airport, although there was no overlap between the different services.

4.58. Table 4.9 shows the pattern of routes offered on 1 November 1995, with an indication of passenger numbers to illustrate the volume of traffic on the route during 1994.

TABLE 4.9 **Routes at 1 November 1995 (1994 passenger numbers)**

Route	*International Airport*	*City Airport*
London		
Heathrow	1,013,208	
Gatwick		202,835
Stansted	(Route began in 1995)	57,827
Regional		
Aberdeen		5,931
Birmingham	107,393	136,673
Blackpool		28,910
Bristol		41,823
Cardiff		13,371
East Midlands	(New in 1995)	
Edinburgh		62,050
Exeter		12,543
Glasgow	64,325	70,537
Guernsey		(Via Gatwick)
Isle of Man		29,944
Jersey	18,938	1,188
Leeds/Bradford	2,148	70,445
Liverpool		66,074
Londonderry		(New in 1995)
Manchester	117,061	120,786
Newcastle		46,442
Prestwick		(New in 1995)
Southampton		11,058

Source: BIA and BCA.

4.59. There is a much greater degree of route overlap between the two Belfast airports than there is at either one of them separately. This suggests that the existence of two airports leads to greater competition between airlines.

4.60. Turning to the use of the Belfast airports by different airlines, we set out in Table 4.10 the market share of all the airlines flying more than 2,000 passengers in or out of each of the Belfast airports in 1986, 1990 and 1994 on domestic routes. This shows that:

- at the International Airport airline concentration has fallen slightly since 1986, as reflected by the shares of the top two airlines; and

- at the City Airport airline concentration has risen significantly since 1990, with the share of the top two airlines rising from 68 per cent of domestic traffic in 1990 to 86 per cent in 1994: roughly the same concentration as at the International Airport.

4.61. In the first ten months of 1995, at the City Airport, JEA and Manx accounted for 88 per cent of domestic scheduled passengers; Gill for 10 per cent; and Air UK, Knight and Genesis for 2 per cent (these last three discontinued services from the City Airport in the course of 1995).

[1]In March 1995 flights started from the International Airport to Stansted; passenger numbers are similar to those on flights from the City Airport to Stansted.

TABLE 4.10 **Domestic passenger shares by airline, 1986 to 1994**

per cent

	Share of domestic scheduled passengers from airport		
	1986	*1990*	*1994*
International Airport			
BA	66	49	48
BM	30	35	46
Maersk	0	3	4
Air UK	4	4	0
Britannia	0	8	0
Loganair	0	0	2
Top two airlines	96	84	94
City Airport			
JEA		25	45
Manx		14	41
Loganair		44	5
Capital	Not	14	0
Gill	available	2	5
Air UK		0	4
Loganair and Manx		58	46
Top two airlines		68	86

Source: CAA.

4.62. It is also useful to consider airlines which have operated at both of the Belfast airports. There were four of these between 1990 and 1994:[1]

- Gill has operated out of the City Airport since 1989, but also flew from the International Airport to Newcastle from 1991 to 1993 and still has a cargo operation at the International Airport.

- Loganair was a major operator out of the City Airport on several routes until 1994, when routes were swapped with Manx (another company in the same group) and it started a Glasgow service from the International Airport.

- Air UK operated a service from the International Airport to Leeds/Bradford in the early 1990s; but after passenger numbers fell in 1993 and 1994, it started a service flight to Stansted from the City Airport.

- Knight carried small numbers of passengers on scheduled flights from both the City Airport and the International Airport in 1994, to Teesside and Leeds/Bradford, respectively.

Airline fares

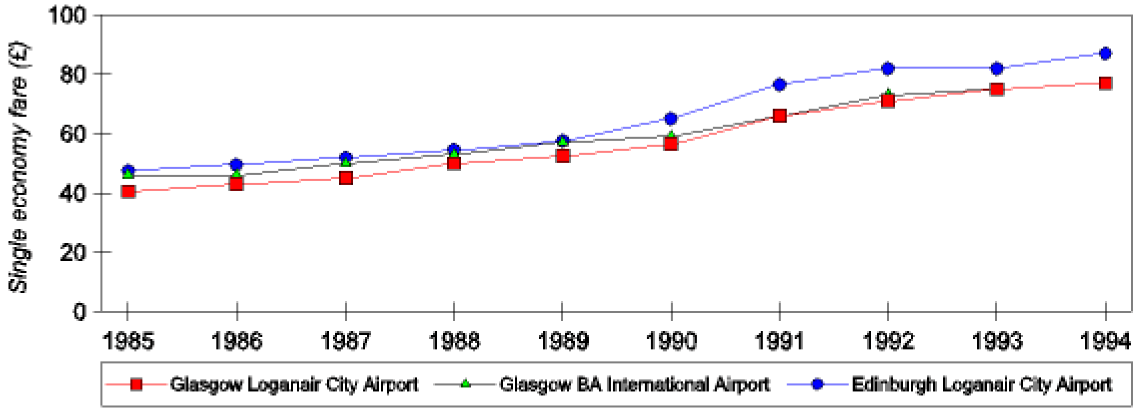
4.63. There is a considerable quantity of data on fares, but no corresponding information on how many passengers flew at each fare. Many special fares are only available in limited circumstances and limited numbers. Most comparisons of fares are therefore based on economy fares, although these will not necessarily move in line with the discounted fares. The proportion of passengers paying the standard economy fare may also vary significantly.

4.64. We considered the profile of standard single economy air fares to several of the domestic destinations shown in Figures 4.14 to 4.16, to see whether there is any evidence that airlines without competition on their routes are able to set higher prices. The data show an inconclusive picture.

[1]The only complete years for which we have a full breakdown.

FIGURE 4.14

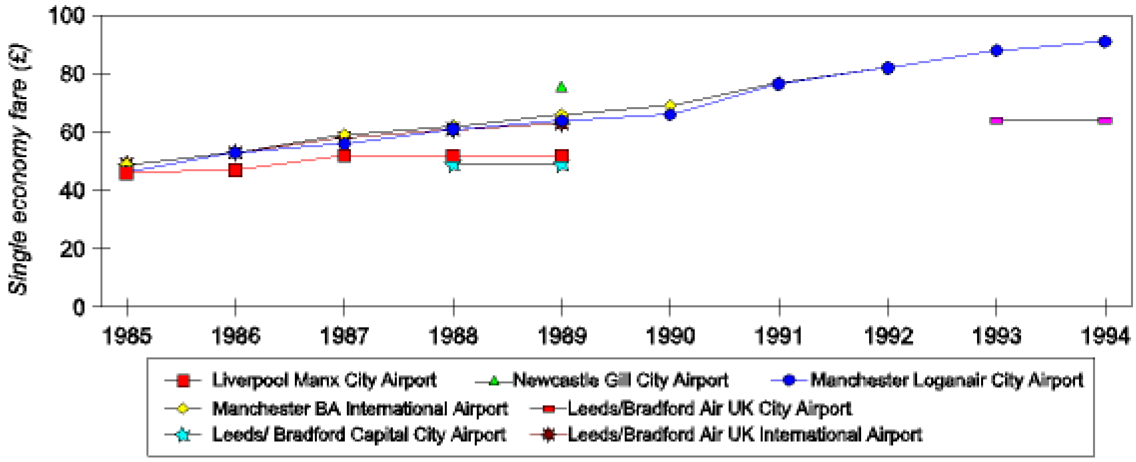
Standard single economy fares—destinations 110 to 150 miles from Belfast



Source: CAA.

FIGURE 4.15

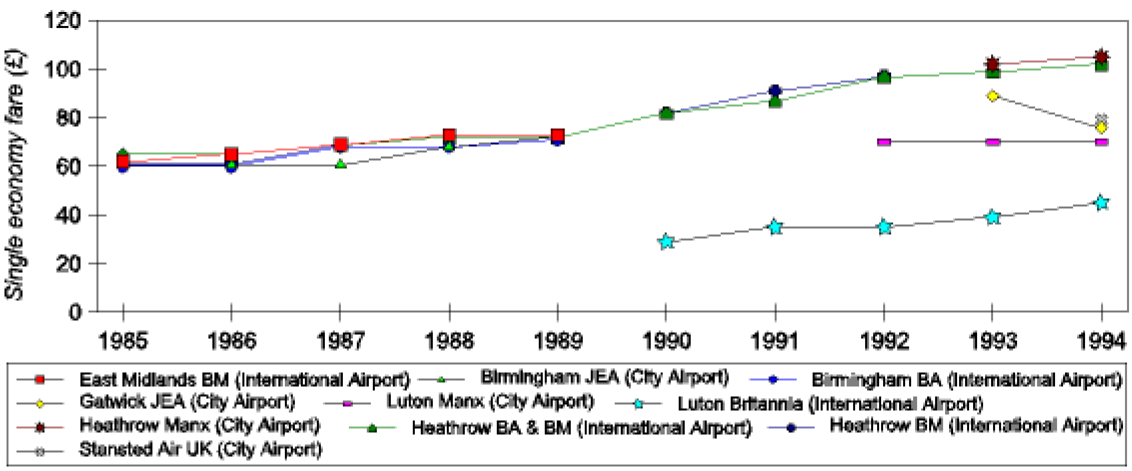
Standard single economy fares—destinations 165 to 195 miles from Belfast



Source: CAA.

FIGURE 4.16

Standard single economy fares—destinations 230 to 330 miles from Belfast



Source: CAA.