

5 Views of third parties

Contents

	<i>Page</i>
Airlines	61
Air Belfast Ltd	61
Airtours International Airways Ltd	61
British Airways plc	61
British Midland Airways Ltd	64
Gill Airways Ltd	65
Jersey European Airways Ltd	66
Loganair Ltd	68
Maersk Air Ltd	69
Manx Airlines Ltd and Manx Airlines (Europe) Ltd	69
Airports	71
BAA plc	71
Birmingham International Airport plc	71
City of Derry Airport	72
Isle of Man Airport	72
London Luton Airport Ltd	73
Manchester Airport plc	74
Local authorities	74
Antrim Borough Council	74
Ards Borough Council	75
Ballymena Borough Council	75
Banbridge District Council	75
Belfast City Council	75
Borough of Coleraine	75
Carrickfergus Borough Council	75
Castlereagh Borough Council	75
Craigavon Borough Council	76
Down District Council	76
Larne Borough Council	76
Limavady Borough Council	76
Newtownabbey Borough Council	76
North Down Borough Council	76
Omagh District Council	77
Other bodies	77
Air Transport Users Council	77
Belfast City Airport Forum	77
Belfast Harbour Commissioners	78
Civil Aviation Authority	78
Department of Economic Development (Northern Ireland)	79
Department of the Environment, Northern Ireland	79
General Consumer Council for Northern Ireland	80
Holywood Residents' Association	81
Institute of Directors, Northern Ireland Division	82
Irish Congress of Trade Unions	82
Jersey Transport Authority	82
Ministry of Defence, Royal Air Force	82

National Air Traffic Services	83
Northern Ireland Economic Council	83
Northern Ireland Tourist Board	83
Strangford Unionist Association	84
Others	84
Air BP Ltd	84
Aldergrove Airport Hotel	85
Alpha Airports Group plc	85
A resident of County Down	85
Economics Plus Ltd	85
Isle of Man Steam Packet Company Ltd	86
Mr A T Jackson	86
Mr D Kennedy	86
Mrs J Parkinson	86
Servisair plc	86

Airlines

Air Belfast Ltd

5.1. AB, an airline operating at the International Airport with 104-seat jet aircraft, made representations in favour of the proposed merger of the International and City Airports.

5.2. The view of AB was that there was an overwhelming case for the two Northern Ireland airports to be brought under one authority. The classic model was the British Airports Authority which successfully operated all three major London airports and also Glasgow and Edinburgh Airports. There were gains to be obtained from tighter utilization of resources, application of management skills and clearly focused strategic planning involving both airports.

5.3. The merger could only be of benefit to the travelling public and the service providers, ie airlines. Competition between airlines, whilst being more focused, would enhance the product on offer to the travelling public. The growth experienced during 1995 on the Belfast route clearly indicated that early action was required, ensuring that runway and terminal facilities at both airports were not allowed to become slot limited. Smaller domestic traffic intermingling with the larger aircraft of 104 seats upwards must be avoided wherever possible.

5.4. The levels of change were in line with custom and practice at other major airports. Facilities had improved considerably during the past year. Ground handling services, however, required competition. There was excellent potential for expansion of interline services from the International Airport. Charter traffic would also grow during the coming years.

Airtours International Airways Ltd

5.5. Airtours International Airways Ltd told us that its only business in Northern Ireland for the foreseeable future was to operate inclusive tour charters to destinations in Europe and the USA. As it could only use the International Airport for its operations in Belfast, these would be unaffected by the proposed merger and it therefore had no objections to the merger.

British Airways plc

5.6. BA wrote to us and attended a hearing.

5.7. In summary, BA said that it was opposed to the proposed merger. It saw no benefits arising from such a merger and considered that there would be a number of significant disbenefits. These disbenefits would be likely to include less choice for passengers, development of the airports to suit the interests of the

operator and not the users (thus forcing services to operate out of an airport which was not their first choice) and higher charges. Although it might be possible to impose conditions on any merger to ameliorate these consequences, BA did not believe they could be eliminated or even reduced sufficiently to make the merger acceptable.

5.8. A press release issued by the International Airport dated 19 May 1995 and an article in the *Financial Times* dated 2 August 1995 had reported the Managing Director of BIA as saying that the City Airport was grossly overcrowded and its operations would be rationalized. He was stated to have said that it was never intended that the City Airport should encroach on BIA's business when the two airports were state-owned. BA submitted that these statements showed that BCA and BIA were admitted by BIA to be competitors, with which BA fully agreed. Furthermore the juxtaposition of the statements on alleged overcrowding and rationalization of operations appeared to show that BIA did not recognize that the current division of traffic was the result of consumer choice and that BIA planned to force traffic to move to suit its convenience. The comment about encroachment on BIA's traffic reinforced this interpretation.

5.9. BA said that competition between airports was complex. Airlines relatively rarely had a real choice between airports when seeking to serve particular passenger markets (choice when serving cargo markets was rather more common). Passengers were more likely to be influenced in making their choice of airport by factors outside the control of the airport (the airline, its fares and schedules, etc). However, in BA's judgment the two airports were reasonable alternatives for each other in so far as BA's services were concerned. There was no other airport in the province which could provide a satisfactory alternative, primarily because of lack of equivalent ease of access for the vast majority of passengers using the Belfast airports. This meant that the two Belfast airports were in a position to compete for airlines' business by the provision of better services and lower charges. In 1994 BA had given serious consideration to moving its operation from the International Airport to the City Airport. This had been prompted by the offer of lower costs at the latter. BA had decided to stay where it was, in part because it considered that the facilities at the City Airport would be unable to cope with the volume of business. It believed its negotiations over charges with BIA were helped by the fact that BIA had become aware of the discussions between BA and BCA.

5.10. If BCA remained in separate ownership from BIA, then it was to be expected that it would develop its facilities so as to be able to accommodate additional services and BA, and others, would continue to have the choice of which airport to serve. This would ensure that the two airports maximized the quality of service offered and minimized the costs to users. If the airports came under single ownership, there would be no competition at all for the custom of the airlines. Because of the interchangeability of the two airports, it was possible for airlines to compete with each other for business by offering passengers between Great Britain and Northern Ireland a choice of airport. Indeed it was this very opportunity that had encouraged some airlines to come into the market in the first place. Thus the choice of airport had fostered competition between airlines and the loss of such a choice might lead to a reduction in the number of competing services offered by the airlines. A single owner of the two airports could maintain this opportunity but the reported statement of BIA's management suggested that, at best, this would be curtailed.

5.11. The direct effect of the merger on passengers was probably small. Passengers' choice of airport was based almost entirely upon a consideration of the convenience of access and the choice of airline, schedule and fares on offer; rarely was the choice made on grounds directly under the control of the airport. Nevertheless, competition between airports for the custom of airlines did impact on passengers. Airlines sought to provide their passengers with the best overall service. This extended to airlines pressurizing airports to improve their performance in areas which had a direct effect on passengers (provision of adequate check-in space, better amenities, more pleasant surroundings, easy passage through the terminal, improved car parking, etc). The main effects on the passengers would derive from the consequences of the effects on the airlines. Higher costs to airlines got passed on.

5.12. BA believed the charges to it at the International Airport were lower than they otherwise would have been because BIA realized the risk of services being moved to the City Airport because of the lower costs on offer there. BA said that it could point to no specific example of services being made available or the quality improved because of the competitive pressure of one airport on the other, but it must be that each airport in considering its development took account of what its competitor was doing to attract business.

5.13. It would be possible for BA to move its existing services to the City Airport, subject to the availability of adequate capacity at the time. The City Airport was currently congested but had room to expand. There were no constraints on BA's possible use of the City Airport.

5.14. BA's concerns about the proposed merger were essentially that it would lead to direction of traffic, higher airport charges and lower investment in facilities and expansion at one airport to the benefit of the other or at the two airports in aggregate. Any of these developments would be to the detriment of airlines and the travelling public and therefore against the public interest. Should the merger be allowed despite this, BA would wish to see safeguards imposed to mitigate the damage. The CAA ought to be ready to take on an additional non-statutory role with regard to the Belfast airports if necessary. However, safeguards would not provide as good a result as could be expected from competition between the two airports; regulation would not equal market forces for efficacy. The safeguards would not be sufficient to offset the adverse consequences of the merger.

5.15. In order to avoid the risk of direction of traffic, BA suggested the new entity might be forbidden to place any restriction on the use made of either airport save for those imposed by external bodies or those approved by the CAA. To reduce the risk of charges rising more than they otherwise would have done, all charges made to users by the airports should be subject to regulation by the CAA or some other body. However, BA believed that regulation of monopolies in this way, including other UK airports, did not suggest that these powers were very effective. The most difficult adverse consequence of the merger to deal with by conditions was the likelihood that the owner of the airports would seek to steer traffic indirectly by not investing adequately in one or other airport or that it would let standards of service and provision slip generally. Probably the best that could be done was to impose a condition that the company should be required to comply to the best of its ability with all reasonable requirements and conditions imposed upon it from time to time by the CAA following full consultation and perhaps subject to appeal to the Secretary of State.

5.16. BA told us that it was possible for the City Airport to be expanded, although a certain amount of local opposition could be expected. The noise of aircraft was not so much the problem as the number of aircraft. Larger aircraft such as a Boeing 757 could be operated from the runway at the City Airport. There was no reason why the City Airport should not continue to operate viably in the absence of a merger with the International Airport. Some improvement in the access to the City Airport would be required. BA could operate from the City Airport because there was no reason such as noise or aircraft capability to prevent it. However, the movement of BA's operations might lead to the City Airport's exceeding its current passenger limit. Planning consent would be needed to exceed this limit. The runway at the City Airport needed resurfacing and the existing airport facilities might need upgrading. However, improvements would be expected to be paid for by greater throughput of the airport.

5.17. A CAA survey had shown that about two-thirds of passengers flying out of Belfast chose the airport most convenient for them (on routes where there were flights from both airports to the same destinations). On a route such as Manchester, which was served in almost exactly the same way from both airports, there had been a marked shift over recent years in favour of the City Airport. Manchester tended to be a business rather than a leisure route, and the business community was based in the Greater Belfast and North Down areas.

5.18. There had been a threat at one stage that the owner of East Midlands Airport might wish to take over Birmingham Airport. BA would also have objected to that.

5.19. In response to a question about the effectiveness of regulation, BA said that the caps that had been put on airports' charges had not come anywhere near biting.

5.20. BA added that it was difficult to conclude that competition between the airports had led to growth but nor could one conclude the opposite. There were too many other factors, eg growth in competition from the Irish Republic, the changing security situation, and the nature of surface competition. BA disagreed that airlines were 'captive' to particular airports. Airlines always had the choice to move their operations between airports. Inter-airline competition was enhanced by competition between airports.

British Midland Airways Ltd

5.21. BM wrote to us and attended a hearing. BM is a wholly-owned subsidiary of ABH.

5.22. BM did not support the common ownership of the two principal commercial airfields in Northern Ireland. It believed the ownership of both airports by a single entity would inhibit competition in aerodrome and airfield services and that such a situation would be detrimental to the airlines operating from both airports and to the consumers of air transport services.

5.23. It had been abundantly clear over the last ten years that competition in the provision of air transport had been proved to be good for customers. BM had constantly shown that it was good for the consumer. In two reports, *A fair deal?* and *A fairer deal*, BM had detailed how competition had enhanced consumer choice, increased service levels and reduced fare levels. When BM launched its domestic trunk operation it brought competition to once monopoly routes such as London to Glasgow, Edinburgh and Belfast. Since BM started flying from Heathrow to Belfast International in 1984, the total market for passengers flown had increased by 30 per cent and in the same period fares had responded to competition. The highest available fare had been forced down in real terms over the last five years due to competition, whilst the published price for the Apex (saver ticket) fares had matched the rate of inflation. In tandem with the development of competition on the Heathrow route, the number of airlines offering services to alternative London airports had grown.

5.24. In terms of market share the two Belfast airports dominated the supply of airport services in the province. The City Airport took 37 per cent of the market and the International Airport took the remaining 63 per cent. The CAA in its 1993 report *Airline Competition in a single European market* had recognized the benefit of competition in air transport services, and the ideal must remain the same for airports. If the proposed merger were to go ahead, this would mean that over 99 per cent of the region's air passengers would receive their airport services from one company.

5.25. Northern Ireland's two principal airports had in recent years competed vigorously with each other. The International Airport was generally accepted as Northern Ireland's primary airport, while the City Airport was faced with operational and service constraints. The facilities at the City Airport were currently unsatisfactory for BM's style of operation and product branding, but they had not stopped other airlines utilizing the City Airport. The City Airport had a perceived geographical advantage over the International Airport, although for BM this perceived geographical advantage was outweighed by the better levels of passenger service and unrestricted access currently offered at the International Airport.

5.26. BIA had indicated in its submission to the Office of Fair Trading (OFT), which BM annexed to its submission, that it would wish to operate the two airports as a system with the International Airport as Northern Ireland's major airport, acting as the trunk route and international gateway, and the City Airport mainly as a regional airport serving other regional centres in the UK with short-haul aircraft. It could be seen from this that BIA had no intention for the two airports to compete with each other if it was to gain control of BCA. BIA did not deal with the issue of competition in its acquisition proposal to the OFT but merely sought to give a price guarantee for three years in which it undertook not to raise published airport charges. With control of a Northern Ireland system, BIA's management would be able to initiate its own traffic distribution, by pricing; specific direction to traffic; or not maintaining the facilities at the City Airport. The City Airport did not hold a public use licence and therefore could refuse certain aircraft if it wished. By disinvesting or deliberately moving traffic through specific pricing measures BIA could concentrate traffic at the International Airport. Although this strategy would allow the airport to benefit in certain economies of scale, it would mean a reduction in service options available to the consumer. Added to this there would be little incentive for BIA to pass the saving on to its customer airlines through lower airport charges. It was unrealistic to expect two airports owned by the same management to be incentivized into providing facilities at one airport which would give that airport a competitive edge.

5.27. The International and City Airports competed with each other, not only in airport services but also in airport charges. Each airport had a significantly different charging philosophy for its customer airlines. Airport charges at the International Airport included those made for aircraft landing, air traffic approach control, passenger throughput and aircraft parking. These charges formed a significant part of BM's cost base, constituting one-third of operating costs on the Heathrow-Belfast route and as such forming the largest single cost item. An innovative approach could be seen in BCA's charges for aeronautical and handling

services. Instead of adopting a separate charge for the landing, parking, passenger and baggage services, BCA made a single charge per passenger encompassing all these services. BCA had been very adept at discounting and incentivizing in a bid to lure carriers and their passengers away from the International Airport. The International Airport's ATMs had declined by almost a quarter since 1989 whilst its passenger throughput had remained static. The growth in demand for air transport services to the region had been satisfied by the City Airport where passenger throughput had more than doubled since 1989. In tandem with the developments at the City Airport, the attitude of the management at the International Airport had become significantly more oriented toward the customer, as illustrated by the freezes in airport charges at the International Airport over the last few years. In the last three years BM had been able to decrease average fares partly as a result of the freeze on the International Airport's charges. BIA was forced by the existence of a competitor to review its cost base and seek efficiencies and was able to reduce its operating costs by 16 per cent in 1993/94.

5.28. BM was unable to see any viable safeguards that would prevent the adverse effects of the proposed merger that could not be better achieved by competition. It thought the principal reason for BIA's proposed purchase of BCA could only be to remove a vibrant and innovative competitor. The consequence of this would be a reduction in the incentive for improvement through efficiency and a reduction in services available to airlines and passengers. If the proposed merger went ahead, it would give a contra-indication to BM, and BM would review its attitude toward serving the province taking into account the reduction of choice available in airport services and the cost of airport charges both in the short and long term.

5.29. From time to time BM had had overtures from the City Airport. It did land at the City Airport if there was a problem at the International Airport. However, for the medium term, BM was well established at the International Airport. Since the early 1990s, the management at the International Airport had become more customer-oriented due to the competition from the City Airport.

5.30. BM added that the Belfast airports did compete vigorously to attract new and existing services. BCA's charges structure had allowed airlines to start routes without the risk of fixed airport costs normally associated with launching a new route. Competition could be demonstrated by the example of BM's East Midland service. When this service was reorganized in January 1995 within the ABH group, BM decided to operate it from the International Airport although Manx, which had previously operated the service, had flown from the City Airport. The reason for this was that BM concluded that the International Airport would be more cost-effective for its particular operation, and also wanted to benefit from the higher levels of service at the International Airport.

Gill Airways Ltd

5.31. Gill (formerly known as Gill Aviation) made a submission in which it said that in May and June 1995 it had had serious discussions with BIA over the possibility of transferring its whole operation from the City Airport to the International Airport. Despite being offered a very attractive package, Gill Airways chose not to move because it recognized that it would most likely face severe competition at the City Airport from one of the existing carriers starting services to Newcastle. This was considered a more serious competitive threat than any threat from the International Airport, because passengers genuinely preferred the location of the City Airport.

5.32. Unlike any other airport within the UK, the City Airport uniquely controlled all the services operated on the airport and within the terminal. It was thus able to structure its charging policies to account for the development of new services, in a manner unavailable to BIA. To state that there was no competition between airports was totally to deny creative management thinking and underscore the real threat of allowing BIA to take over BCA. BCA effectively took the risk on the number of passengers which the airlines would be able to attract through the City Airport. This unique partnership arrangement meant that the City Airport's success was dependent upon the airlines' success, whereas in many other cases airports could still be successful while airlines were unprofitable. On the basis of the BIA charging regime, it would have been impossible for Gill to have commenced the Prestwick service, with the fare levels offered. The location of the City Airport being immediately adjacent to the harbour from where the sea ferries and hydrofoils operated gave it a commercial advantage in attracting former sea ferry passengers.

5.33. Gill added that airport charges were a substantial part of airline costs. It also said that the City Airport had a planning potential of up to 3 million passengers, and that it was convinced that BIA's only motive in seeking to acquire BCA was to close down the City Airport. There were no economies of scale to be achieved by way of attempting to run the two airports as though they were two separate terminals and BIA's argument to this effect was totally unrealistic. Any form of undertaking by BIA to retain the City Airport as an operating airfield for a period of three years was insufficient for any long-term planning of new scheduled services. On the assumption that BIA paid around £33 million for the City Airport and this was financed by way of a seven-year medium-term loan, with a fixed interest rate of 9 per cent, the total principal and interest on a depreciation balance would amount to £43,598,924 assuming monthly repayments of £530,940 over the full 84 months. If BIA closed the City Airport at the end of three years and assuming it would achieve a minimum profit generation of £4 million per year for each of these years (the estimated profit for the City Airport in 1995), there would be a balance outstanding of £31.5 million to be paid off over the last four years. However, assuming the closure of the City Airport and the transfer of all business to BIA, the enhanced benefit in operating revenues to BIA would mean that it could repay the same within 2½ years. This ignored any profit or cash benefit generated from the disposal of the City Airport for commercial development purposes, which it was estimated would have a value of £10 million to £15 million.

5.34. The City Airport could be extended to accommodate extra traffic at relatively modest cost without the need for a new terminal building. Gill said that its own shareholders would be interested in joining a consortium of local interests and/or other airlines and/or management to secure continuity of the City Airport's operations. In the event of the merger going ahead, Gill considered that the only suitable safeguard would be a supervisory board on which the City Airport airlines could have a voting majority.

Jersey European Airways Ltd

5.35. JEA wrote to us and attended a hearing. JEA is an independent airline owned by the Walker Aviation Group.

5.36. JEA said that it was only in relation to domestic scheduled services that the City Airport offered any sort of competition to the International Airport but that these services represented 80 per cent of the total passenger movements at the City Airport and the International Airport in 1994. JEA had evolved a network at the City Airport which it had been able to develop as an alternative product to the domestic services offered from the International Airport. It also had plans to develop its hub and spoke system for the benefit of other parts of Ireland and its communication with mainland regional points. JEA's unique selling point would be destroyed if it were forced to abandon the City Airport and move to the International Airport. The City Airport provided the medium through which JEA and others could offer a differentiated product and thus compete effectively with BA, particularly on the London routes; such competition would be less effective and, for the most part, absent if JEA were forced to move to the International Airport.

5.37. The price which BIA proposed to pay for BCA could be justified only out of a consideration for the need to remove competition and to develop monopoly profits. There was no overwhelming need for BCA to be swallowed up by BIA; there were numerous other parties who would be interested in an acquisition of BCA, any one of whom would be a better option in terms of competitive benefits than would BIA.

5.38. JEA saw the Derry connecting services as important in that not only did they widen the market, but they bolstered the base of its Belfast City Airport services. JEA was likely to investigate the viability of adding additional 'spokes' to the BCA hub, eg Enniskillen. JEA had also been working with the management of BCA to develop a product for business passengers which sought to make a virtue out of one of City Airport's shortcomings, namely its confined space. To a certain extent the constraints affecting operations from the City Airport might be an opportunity for JEA. The City Airport's principal selling points were its location and its compactness. JEA could benefit from lower airport charges than it would otherwise have to pay at the International Airport. JEA did pass those savings on to passengers in lower fares, which thus produced competitive tension between both airports and airlines.

5.39. JEA submitted that the MMC would wish to take a longer-term view of likely developments and would be assisted in this by a consideration of developments in the market for the provision of domestic scheduled services since 1983. One also had to recognize that the Belfast airports fulfilled a different role serving local transport needs than did other mainland UK airports, because the cost and time involved in

making the sea crossing to the UK meant that a much higher proportion of the trips made between Northern Ireland and other parts of the UK were by air. This meant that the Belfast airports attracted a larger share of the non-business travel sector because of inferior surface competition. Therefore the market was more responsive to fare changes and other competitive benefits than was usually the case.

5.40. With the exception of the London routes which had a peculiar set of constraints, the City Airport attracted 72 per cent of all UK domestic passengers in 1994. On the four most popular routes enjoying services from both the International Airport and the City Airport, namely Birmingham, Glasgow, Manchester and Leeds/Bradford, the share of traffic achieved by the City Airport was superior to that of the International Airport. In respect of the Stansted route on which services from the International Airport began in 1995, the City Airport enjoyed a substantial market share. It was only on the Heathrow route that the City Airport had failed to secure the lion's share, and the reason for this was external, in that entry for a potential competitor was effectively denied by the non-availability at Heathrow of slots in sufficient quantity at commercially appropriate times.

5.41. JEA said that the sum offered by BIA was believed to be substantially in excess of any other offer and was extremely difficult to justify in commercial terms, particularly if one took into account the need for further investment at the City Airport, estimated by others at £15 million, if the City Airport were to continue to develop as a commercial airport. The only way in which such a large investment by BIA to acquire BCA could be justified would be if it were to starve the City Airport of further investment, and find a way to persuade traffic currently using the City Airport to move to the International Airport. This intention seemed to be confirmed by BIA's press release issued on 19 May 1995. The switch to the International Airport of the scheduled services currently using the City Airport would result in additional revenue earned at the International Airport of around £10 million. Allowing for incremental costs of, say, £1.5 million, this would produce a profit of £8.5 million in addition to that of £3.5 million reported by BIA for the year to 31 March 1995. If one were to apply a price:earnings ratio of 8 to BIA, and keep in mind that the company's only competitor had been removed, this would value the merged enterprise at £96 million, as compared with the current worth of £28 million, representing an increase in value of £68 million for an investment of around £30 million offered for the City Airport. It was only on the basis of this type of calculation that the proposed investment by BIA could be justified.

5.42. On the subject of airport charges, JEA said that these charges (landing, handling, ramp, passenger and security fees) were an extremely significant part of JEA's total costs (about 31 per cent). The City Airport had attracted business by introducing a competitive pricing policy whereby it shared the risk with its airlines by charging for all of its services on a per passenger basis. A compulsory move by JEA from the City Airport to the International Airport would incur additional costs amounting in some cases to as much as 27 per cent. Such an increase in airport costs would have to be passed on in higher fares. BIA had undertaken to maintain published prices for three years, but this offer took no account of the increased cost for a City Airport operator of moving to the International Airport, nor did it take account of negotiated rates. A time-scale of three years was relatively short in an industry which required high investment and looked to lengthy depreciation periods.

5.43. JEA said that it was also important to consider the effect upon competition in a wider context. It had been the cornerstone of the Government's airline competition policy for the last 20 years that the interests of the consumer were best served by the existence of a number of competing British airlines strong enough to compete with each other and to produce a range of innovative ideas. The position had changed in the last two years in that the introduction of the so-called Third Package in Europe had brought freedom of route entry within the EC and a reduction in the powers of the CAA with regard to route licensing. This development had increased the pressure upon the smaller British airlines, many of which had taken refuge by agreeing to become franchises of BA under the 'BA Express' banner. JEA, as one of the few remaining independent airlines, was able to mount effective competition for BA and its satellites because it could negotiate discounts of its own from BCA and could demonstrate a recognizable alternative with the unique selling point which the combination of JEA and BCA offered. The first detriment of the merger would be that the distinctive BCA services could disappear. The second would be that the rein on BIA's charging policies represented by the presence of BCA would disappear, and the third would be that the smaller airlines would lose their ability to present effective competition to BA. The overall result would be stagnation in the market because the degree of choice would be substantially reduced and passengers' needs would no longer be met in the most effective way.

5.44. JEA believed the implications of the merger were so profound that there were no safeguards which could be effective to preserve the competitive benefits which had been demonstrated.

5.45. However, if, notwithstanding the above, the merger were to be allowed and safeguards were to be under consideration, JEA advocated that the City Airport should become subject to the conditions of a public use licence so that it would be required to accommodate all types of traffic without discrimination. In addition, there would need to be regulatory control of each airport's charges (including discounts). Even with the above safeguards, the threat to the continued existence of the City Airport could be severe, because all BIA would need to do would be to starve the airport of the further investment which it needed and achieve its design by that means. Initiatives, and progress, would stagnate if there were a reversion to the old monopolistic regime.

5.46. JEA told us that it saw the partnership between JEA and BCA as very important in producing benefits for the consumer through competition. JEA was competing with very large and powerful companies, and therefore it did seek to differentiate. JEA saw Northern Ireland as an opportunity for growth and therefore was hoping for a BCA purchaser who saw the City Airport as an opportunity for development and growth that the market wanted and would invest accordingly. BCA had welcomed JEA on, for example, its route to Birmingham and had reflected this in discounting its charges. Had JEA gone to BIA, BIA would have said that it had a route to Birmingham already. JEA's high standards of punctuality were significantly due to its standby aircraft, which it maintained specifically with a view to enhancing quality standards. If the size of JEA's operation at the City Airport were reduced by the need to transfer services to the International Airport, the provision of such a standby aircraft would not be economically viable.

5.47. Competition between airports and competition between airlines was difficult to disentangle. In the price-sensitive market where JEA was offering lower fares in general than its competitors, passengers were choosing the airline. BCA actively advertised its merits to the public and travel agents were advertising too. Businessmen could leave their office 35 minutes before the flight and still get on at the City Airport. JEA was endeavouring to develop with BCA management the fastest car-to-plane product available in the UK.

5.48. JEA added that about 1.4 million more passengers used the Belfast airports in 1994 than in 1982, of which the City Airport was responsible for 1.2 million. Of the 14 routes¹ served only from the City Airport, JEA maintained that they owed everything to competition between the airports. In virtually every case, a new service had begun at BCA either in competition with an existing service from BIA or by a transfer of a service operated from BIA. BIA had complained to regulatory authorities and others about City Airport operations over the years from 1983. Although BIA said that it would be against its commercial interest to close the City Airport, it would have to decide at which airport to concentrate investment. Under common ownership, the incentive for each airport to compete for business would disappear. JEA said that it had registered an interest in bidding for BCA, and had not ruled out a possible acquisition, though airport management was not its core business.

Loganair Ltd

5.49. Loganair, which provides scheduled services between Scotland and Belfast, made representations opposing the proposed merger between the Belfast airports. Loganair is a wholly-owned subsidiary of the ABH group and trades from the International Airport as British Airways Express.

5.50. Loganair stated that it had operated between Belfast and Glasgow and Edinburgh from the City Airport between 1983 and 1994. It believed it would have been unable to sustain services against BA had not the City Airport (then called Belfast Harbour Airport) opened in 1983. There was no doubt that the choice and convenience of alternative airports allowed a small operator like Loganair to compete satisfactorily against the much larger national carrier and achieve viability. Loganair had continued its operations at the City Airport until March 1994 when, as a consequence of a group reorganization, Loganair's Belfast services were transferred to its sister company Manx.

¹These 14 routes, mentioned in Shorts' submission, were Gatwick, Aberdeen, Blackpool, Bristol, Cardiff, Edinburgh, Exeter, Guernsey via Gatwick, Isle of Man, Liverpool, Londonderry, Newcastle, Prestwick and Southampton. The Luton route had also been served only from the City Airport, since June 1995.

5.51. The Belfast air market had split between the City Airport and the International Airport, not because of capacity or physical constraints at either airport, but purely on choice of airport and, to a lesser extent, choice of fares offered by the different airlines at the two airports. The introduction of traffic management rather than dependence on market forces would be detrimental to the development of continuing healthy competition. The suggestion that passenger volume at the City Airport would be reduced to 750,000 passengers a year implied that certain flights would be transferred to the International Airport-with the reduction of choice for the passenger. The choice of airport and the choice of airline over the past 12 years had created choice for both airline and passenger in terms of location and price. It might be the professed policy of BIA to maintain operations from the City Airport. Policies, however, could change in a monopoly situation. As far as suppliers were concerned, a merger between the two airports should increase airport bargaining power, resulting in lower costs to the airport. However, again in the context of a monopoly, these lower costs might not necessarily be passed on to the airport's customer. The range of facilities available at the City Airport were more limited and more congested than at the International Airport. It was a measure of the convenience and function of the City Airport that, despite these perceived shortcomings, the number of airlines and passengers using the City Airport had increased significantly each year.

5.52. Loganair currently operated scheduled air services between Glasgow and the International Airport. The International Airport would always be convenient for a proportion of air passengers; Loganair expected therefore to maintain its present services and gradually increase these in line with overall market growth. Because of Loganair's existing presence at the International Airport, any new scheduled services were likely to be from that airport. Northern Ireland was well served by a range of air services from many UK mainland airports. With the increase in availability of appropriate small, sophisticated turbo-prop aircraft, new services to other destinations might be established at the City Airport. With Belfast traffic having a significant VFR (visiting friends and relatives) element, there was always price sensitivity. The overall cost of the journey therefore was relevant. In this regard, the lower local (taxi) cost from the City Airport to city centre had, therefore, been a factor in establishing thin air routes at the City Airport. There were no practical constraints that would affect Loganair's operations from these airports.

Maersk Air Ltd

5.53. Maersk told us that it operated services between Birmingham International Airport and Belfast International Airport. These services were operated in BA colours under Maersk's franchise agreement with BA. Whilst Maersk chose to operate from the International Airport alongside the other BA services, it was prevented from flying into the City Airport because of the noise regulations currently in force. Its competitor on the route, JEA, flew to the City Airport, carrying about 10 per cent more passengers on a similar number of rotations. Each airline had a market share roughly equivalent to its share of capacity offered. The choice of two airports and a competitive fare structure had generated a well-balanced market environment on the route. Maersk was generally interested that such a competitive market situation should continue as it did stimulate the number of journeys made.

5.54. Joint ownership of the two airports had the potential to create negative effects on its business. Restrictions on the choice of airports available to travellers affected the available transport infrastructure and could lead to a diminution of the overall market. Less competition could remove the commercial pressure on the airports to invest in facilities to improve their attractiveness. The size and design of the airport could then become a constraint on operations which a profit-maximizing operator was not inclined to develop. If all jet operations were compelled to operate through one airport, either by the airport's pricing structure or a traffic distribution policy, then the level of competition could be arbitrarily increased. Whilst landing fees and charges at the International Airport compared favourably with other airports in Maersk's network, the loss of a competing airport could reduce the commercial pressure to operate cost-effectively and encourage increased fees.

Manx Airlines Ltd and Manx Airlines (Europe) Ltd

5.55. Manx Airlines Ltd (Manx) and Manx Airlines (Europe) Ltd (Manx Europe), wrote to us and attended a hearing. Both Manx and Manx Europe are wholly-owned subsidiaries of the ABH group.

5.56. Manx and Manx Europe believed the proposed merger, if effected, would be contrary to the public interest. The public interest required that the two airports remained under independent ownership and control.

5.57. Scheduled services to the City Airport had been started by Manx in 1983, with links to the Isle of Man and Liverpool. The response from the public had been an instant success, especially the response from visitors to Belfast who had now found themselves landing less than ten minutes from the heart of the city. Manx had built on this response by adding routes to Cardiff, Aberdeen, Blackpool and London (Luton). Manx had started a Heathrow route in April 1993 using a BAe 146 jet, but had to withdraw from the route in October 1994. However, had Manx been able to secure additional slots at Heathrow to offer a competitive range of timings there was little doubt that the route would have been a success.

5.58. Manx Europe said that it was close to making a decision on an order for regional jets, which would enable airlines to offer non-stop flights to Europe from regional airports such as the City Airport. However, it needed to have confidence that such operations would be viable over the next ten years. Uncertainty over the future role of the City Airport if the purchase by BIA went ahead meant that Manx Europe could not proceed with investment in new aircraft at the City Airport.

5.59. BCA competed vigorously and effectively with BIA through competitive airport charges and the offer of incentives to support the development of new routes. Both airports were profitable in this competitive environment. Each airport had its own discrete competitive advantages. The International Airport was generally accepted as being the primary airport for Northern Ireland. The City Airport was constrained in terms of its operational characteristics and facilities. Substantial investment in the City Airport was required in order to provide the capacity necessary to accommodate likely future demand. However, the City Airport had the advantage of proximity to the centre of Belfast. Where services were offered at both airports to and from the same points, the City Airport generally achieved a higher market share than the International Airport. The exception was the London-Belfast market, where slot constraints at Heathrow inhibited the ability to offer competitive frequency, capacity and schedules. The most striking evidence of the attractiveness of the City Airport was shown by the Manchester route where virtually identical services had been operating to both airports and the City Airport's market share had steadily grown over the period. It was notable that the City Airport's higher market share had been achieved even where significant advantages, such as Air Miles, were offered by airlines using the International Airport. Since January 1995, Manx Europe had been operating as British Airways Express under licence from BA, and therefore had the advantage of BA's marketing power. In consequence, it might be expected that a proportion of those passengers who had chosen to fly with BA would be inclined to switch to the City Airport, thus increasing the City Airport's market share yet further. There were no restrictions upon the commencement of services between the City Airport and points in Europe.

5.60. There were no legitimate reasons for denying the City Airport its potential as a gateway to Belfast and the rest of the province. Further investment in the City Airport would not only enable it to maintain its existing business, but would enhance its capability and attraction to carriers and users in the future. Manx and Manx Europe's principal concerns with respect to the proposed acquisition were the prospect of a diminution in competition between the two airports and the establishment of a monopoly on the market for the provision of airport services to and from Northern Ireland. Manx and Manx Europe were also concerned about a change in the City Airport's role such that carriers such as Manx and Manx Europe could not maintain and develop viable services to Northern Ireland.

5.61. Competition between the two airports had provided the user with a greater choice of carrier. In most cases, the ability of carriers such as Manx and Manx Europe to compete on routes from Belfast against larger carriers such as BA at the International Airport had rested on providing the user with the alternative of the City Airport. The pricing and other policies of the City Airport had enabled it to provide competitive advantages to such carriers over the International Airport. Head-to-head competition at the International Airport between all these carriers was not a viable prospect. It was inconceivable that the two airports if commonly owned and controlled would continue to compete to any appreciable extent, if at all. It was clear that BIA saw the future role of the City Airport as substantially different from that which it currently fulfilled. In BIA's press release of 19 May 1995, its Managing Director Mr Dornan had commented that the City Airport could be used as a satellite operation for regional services and corporate operations, a focused investment in both airports aimed at developing an integrated system. Manx and Manx Europe submitted that this statement clearly did not envisage the maintenance of the existing competitive tension between the two

airports. Nor did it take into account the extreme operational difficulty that would face any airline forced to split its services between the two Belfast airports. Historically, successive managements of BIA had expressed strong opposition to the development of the City Airport, opposing applications to the CAA for route licences by carriers wishing to introduce new services.

5.62. There were no safeguards which would be effective in remedying the adverse effect of the merger. Even if BIA was prepared to provide undertakings to keep the City Airport open or to permit access at the City Airport to certain categories of traffic or carriers, the two airports could not be compelled to compete with one another by means of undertakings. BIA certainly could not be forced to make the investment necessary to maximize the opportunities for the City Airport to compete with the International Airport. Commercial entities competed effectively with one another through a variety of sometimes quite subtle differentials, many of which depended upon timing, investment and confidentiality in their introduction. Such matters were inconsistent with common ownership, especially against a background of a professed strategy to develop 'complementary roles' and 'integrated systems'. There were other willing bidders; these should be encouraged.

5.63. Manx and Manx Europe added that the existence of the City Airport had not actually expanded the total market. It would therefore be in BIA's interest to close the City Airport. In reality there was not a particular noise problem at the City Airport. If the facilities at the City Airport were upgraded, this would lead to increased throughput of passengers. Passengers chose the City Airport on account of its convenient location. The International Airport had a facilities advantage. Certain low-fare routes had grown up out of the City Airport which were entirely designed just for that purpose, for example to Luton. Passengers would ultimately benefit from strong competition between airports. Airlines benefited because they were carrying more passengers and passengers benefited because of the flexibility and because costs were kept down.

Airports

BAA plc

5.64. BAA (formerly known as British Airports Authority) made a submission to us based on its own experience operating two or more airports serving the same area.

5.65. The policy reasoning behind single ownership of airport systems was set out in the Government's 1985 White Paper, *Airports Policy* (Cmnd 9542). The main points were that single ownership allowed for economies of scale in airport operations, and the development of higher levels of specialist expertise; that single ownership allowed for the co-ordinated management of demand to ensure the most effective use of airport capacity; and that single ownership strengthened the ability and flexibility of investment financing at each airport. Against this, it had been argued that separate ownership allowed for competition which would force down prices and increase service to the benefit of users. In practice this benefit might be limited by the fact that no two airports serving the same city operated in a perfect competition. In BAA's experience the greatest area of competition was normally between major airport systems of different cities competing for hub traffic, between different regional airports serving different cities for footloose charter operations, and between air transport and other modes of transport.

5.66. BAA believed its ownership of the London and Scottish lowlands airports systems had brought material benefits to users as regards low airport charges; service quality; cost-effectiveness; investment; innovation; and the protection of customers. BAA did not make any recommendation to the MMC on the Belfast airports reference. However, it believed its own experience showed that the airports serving a city could be operated by a single body effectively and in the public interest, and that the existing regulatory system had proved well equipped to safeguard the interests of airport users. It added that on the evidence available to BAA it did not appear that the development of the City Airport had promoted overall growth in the Belfast air traffic market.

Birmingham International Airport plc

5.67. Birmingham International Airport plc, while not wishing to comment directly on the proposed merger, stated that there were many instances of more than one airport being operated together and it would not necessarily consider this to be against the public interest.

City of Derry Airport

5.68. City of Derry Airport (City of Derry) told us that it (formerly known as Eglinton) had been acquired and opened by Derry City Council as a commercial airport in April 1978. Scheduled flights were introduced to Glasgow, Dublin, Blackpool and the Isle of Man. Following major reconstruction the new City of Derry Airport opened in 1994, with the facility to cater for up to 250,000 passengers annually, and servicing a catchment area which broadly corresponded with a 45-minute drive from the airport, with the addition of West Donegal. The airport now offered scheduled services to London Stansted, Birmingham, Leeds/Bradford, Manchester, Dublin and the City Airport which connected with other services from that airport. City of Derry estimated from current monthly figures that the amount of passengers through the airport would be in excess of 90,000 in 1995.

5.69. City of Derry pointed out that JEA thought its BCA connections offered the widest range of destinations available from City of Derry. The frequency of service and the competitive nature of fares currently on offer offered the widest possible choice to both the leisure and business community of the North-West. City of Derry recognized that the development of direct services could only be achieved by stimulating passenger demand through the City Airport connection service.

5.70. It objected strongly to the proposed merger. JEA had given it notice that should the merger succeed and the services currently operating from the City Airport be moved to the International Airport, the logic of operating a connecting service from the City of Derry would no longer be valid and this service would be discontinued, removing the choice of over 12 destinations to North-West travellers. In addition, with over 95 per cent of Northern Ireland traffic currently generated by the City and International Airports, an amalgamation of both airports would create a virtual monopoly with which a small airport such as City of Derry could not possibly compete. There was therefore a real possibility that the City of Derry, recently reopened at a cost of over £11 million, would be forced to close within three years, following the loss of a major portion of its route network.

5.71. When the money had been put up for the recent development of the airport, it was assumed that competition would remain roughly similar to what it had been, that is, that the City Airport would continue in existence. The management of City of Derry actively encouraged airlines to come as customers. JEA did not believe it could operate viable feeder services from City of Derry to the International Airport, because passengers would be likely to take the view that they could drive to the International Airport, whereas the City Airport was further away. In the event of a merger, City of Derry might be forced to close. If the merger were permitted to go ahead, City of Derry proposed that the City Airport be required to hold a public use licence.

Isle of Man Airport

5.72. Isle of Man Airport submitted that it was desirable to encourage the maximum practical amount of air travel between the Isle of Man and Northern Ireland, so that the respective economies might benefit from business activity, tourism and social links. It pointed out that prior to 1983, the Isle of Man had been linked to the International Airport in Belfast, and it understood that the air carriers concerned had been unhappy with the cost of operating at that airport, together with inflexible ground handling arrangements, unresponsive service levels and the inconvenience of the International Airport's location for the business community. The airlines had subsequently transferred to the City Airport and had since enjoyed considerable success and growth.

5.73. On the question of the convenience of the two Belfast airports, the Isle of Man Airport understood that the Northern Ireland catchment area was naturally divided 50/50 between the two. With only one carrier (JEA) operating between Northern Ireland and the Isle of Man, it hoped to expand the market for flights between Northern Ireland and the Isle of Man by reintroducing services to the International Airport. Following the recent sale and privatization of BIA, there had been promising indications that its new

management would be more pro-active and flexible in helping to persuade prospective carriers to serve the International Airport-Isle of Man route.

5.74. The proposed merger would be against the public interest. As well as stifling competition between the two airports, such a merger would stifle many of the hopes outlined above.

London Luton Airport Ltd

5.75. London Luton Airport (Luton Airport) wrote to us and attended a hearing. It believed where a city was served by more than one airport there was a strong argument for a multiplicity of ownership. It was already recognized by the Government and the MMC that a dominant operator had the potential to distort the market. The arrangements to deal with the potential anti-competitive behaviour of the South-East airports had been, in Luton Airport's view, ineffective in dealing with airport competition, and Luton Airport, along with others in the South-East, had been damaged as a result with a consequent reduction in choice for the consumer.

5.76. Single ownership of both Belfast airports was not in the public interest. Competition between the two airports for the last ten years had been the key factor in developing a wide range of new domestic services to and from Belfast. It was highly unlikely that many of these services would have started at the International Airport, where they would have been faced with the entrenched opposition of BA and BM, who might well have prevented a merged company from offering the low pricing used at the City Airport to develop new services. Both airports served Belfast, but also a wider catchment area which did not completely overlap. The inevitable rationalization of airline services that would follow a merger (over a period) would reduce choice and cause passengers to be forced to use an airport which would not previously have been their first choice. Competition in air services to Belfast, partly aided by airport competition, had brought a wide range of low fares into this market.

5.77. Luton Airport was convinced that standards had been raised as a direct result of competition between the two airports. Competition between the two Belfast airports had without doubt encouraged the development of services from both airports. It was difficult to suggest safeguards to be imposed on a merged company that Luton Airport believed would always be fundamentally anti-competitive, but in the event that the merger was approved Luton Airport suggested that certain safeguards would need to be introduced. For example, a five-yearly MMC review; restricting price increases (on a retail price index minus basis); maintaining the existing opening hours of both airports; continuing to offer the current range of airport services and facilities at both airports; honouring the existing incentive and market support deals with airlines and tour operators; and not to seek to prevent another airport operator entering the market in the Belfast catchment area either through the planning process or with pricing mechanisms.

5.78. Competition between airports was real. The existence of a second airport in Belfast had introduced pricing and marketing competition in a way that had encouraged a number of airlines to start new and lower fare services to the UK from both airports. Luton Airport had had services from both Belfast airports which would not have existed had there not been two competing airports. Its fear was that things would take a very sharp backward step. The existence of airport competition in the South-East had certainly led to aggressive price competition, from which the customers had benefited. It had led to better service standards than would otherwise have existed. Privatization had spurred BIA on to be more competitive. BCA appeared to be at a crossroads in the sense that the airport required significant capital investment if the company was to continue as a major player. Airports were capital-intensive businesses in which investment was needed all the time.

5.79. It was fair to say that airports competed for airlines and airlines competed for passengers, but there was more to it than that. To have pure airport competition one would have to have two runways side by side with two terminals. Airports always served to some extent a different catchment area. They did indulge in marketing activities to attract passengers to use them as well as airlines, but ultimately the passenger was an indirect customer. Airports would strive to be attractive to passengers so that, for example, passengers going on holiday might ask a travel agent about flights available from a particular airport. Luton Airport believed the Belfast airports had actively sought customers. The ticket prices from both airports were fairly similar, and much cheaper than they used to be—perhaps half of what prices were five years ago.

5.80. If the merger were permitted, any safeguards would need to be policed. The chances of a third airport being established in Northern Ireland seemed slim. Luton Airport could not see how, if the airports were under common ownership, they could compete with each other.

Manchester Airport plc

5.81. Manchester Airport told us that it presently had services to both Belfast airports and also to City of Derry. It expected modest future growth in the frequency of these services and expected growth in passenger demand to be taken up mostly by the use of larger aircraft. The two Belfast airports competed for business, and this was to the benefit of passengers. Joint ownership of the two airports need not necessarily result in each airport ceasing to develop to serve its own market. There might be some benefits if joint operations reduced central overhead costs by sharing of administrative functions and systems and these savings were passed on to users.

5.82. Airlines should be free to serve the Belfast market through whichever airport they preferred. The City Airport's site would, however, continue to limit the range of domestic and European destinations which could be served. Manchester Airport concluded that, provided no mechanisms were put in place to force airlines to use one airport or the other, which would in any event be in contravention to European law, and provided no cross-subsidization was allowed, it could not see any harm to airlines or passengers in the proposed merger. The airport added that there might be a case for the airports to be designated under Part IV of the 1986 Act to ensure that the charging regime was fair and non-discriminatory, in a manner consistent with the treatment of the BAA-owned London airports.

Local authorities

Antrim Borough Council

5.83. Antrim Borough Council submitted the separate views of three members of the Council. Councillor J H Allen OBE thought the merger would have distinct advantages in that it would cut down wasteful duplication of services; would stop 'cut-throat' competition between the two airports; would lead to the domestic market being better and more economically served; and would increase safety of flights and airspace. Councillor Allen suggested, however, that if a merger did take place safeguards should be imposed to ensure that a monopoly would not be detrimental to the public interest, eg landing charges should not exceed those applicable in Great Britain. Councillor Allen also suggested that the City Airport should be used as a satellite airport as had been done during the Second World War. Councillor T E Wallace JP (Mayor) said that his main concern was that if the merger went ahead conditions should be imposed to ensure that the new operator acted in the best interests of the Northern Ireland public in relation to safety, standards of service and the provision of value for money. Councillor Wallace thought a merger would facilitate forward planning, remove duplication at management level, and enable the organization of services from both airports to be rationalized to the benefit of all concerned. Councillor Mervyn Rea feared that if the Belfast airports continued in direct competition with each other on certain domestic routes, there would be an over-seating capacity which might threaten the survival of some of the operators on these routes, which would be detrimental to the Northern Ireland travelling public. If the airports were under one management, this would be averted.

5.84. Councillor Rea further pointed out that millions of pounds of taxpayers' money had been poured into the International Airport, which had since suffered because of the City Airport's success and now operated considerably below its capacity. With management experience both airports could be put where they ought to be—the International Airport as the leading gateway to the UK, Europe and other international routes, and the City Airport using its capacity on commuter services. Security, fire cover and ATC should also benefit from being under one management team. Councillor Rea concluded by saying that he considered that if the City Airport were allowed to increase the number of flights over the built-up area of east Belfast it would pose an increasing safety hazard to the residents of that area.

Ards Borough Council

5.85. Ards Borough Council thought the present system, where the two airports were separately owned, was preferable to single ownership as the community was better served by having an element of choice and competition in the provision of airport services.

Ballymena Borough Council

5.86. Ballymena Borough Council said that the introduction of a second major airport (the City Airport) in Northern Ireland had provided competition and a greater choice of flights and prices. The location of both airports meant that travellers into Northern Ireland, particularly on business, could choose the most suitable airport for easy access to their particular destination. The Council feared that the merger would affect choice and costs of flights to mainland Britain and recommended that the public interest in Northern Ireland could best be served by the introduction of safeguards to retain the independent operation of both airports.

Banbridge District Council

5.87. Banbridge District Council expressed concern that the proposed merger would reduce competition between the airports and would lead to an increase in air fares.

Belfast City Council

5.88. Belfast City Council expressed strong opposition to the proposed merger in principle.

5.89. Because of its position on the periphery of Europe, Northern Ireland had to have the best and most competitive air services. The possible merger would result in all significant air services in the province being concentrated at one site, with conditions subject entirely to the owner of that site. The Council had agreed that there would be serious implications for the province, for passengers and for the airline industry should this merger proceed.

Borough of Coleraine

5.90. The Borough of Coleraine expressed concern at the likely diminution of competition resulting from a merger between the two airports. The Borough thought the development of the City Airport had had a positive and beneficial effect on the International Airport. The City Airport was obviously meeting a demand for regional services from a base very close to the city, although the facilities at the airport were less than first class and needed substantial improvement. The continuing expansion of air services allowed for both airports to operate in a way which was beneficial for passengers.

Carrickfergus Borough Council

5.91. Carrickfergus Borough Council said that it opposed the merger as it was in the interests of travellers in Northern Ireland to have competition between the two airports.

Castlereagh Borough Council

5.92. Castlereagh Borough Council said that it opposed the merger on the grounds that it would reduce competition for air fares in Northern Ireland.

Craigavon Borough Council

5.93. Craigavon Borough Council said that the opening of the City Airport and the entry of smaller airlines into the market had increased the choice for the consumer in the availability of flights and the number of destinations served. Competition between the airlines had substantially reduced travelling costs, thus opening air travel to a wider range of customer. The Council considered that such competition could only be to the benefit of the general public.

Down District Council

5.94. Down District Council said that it welcomed the merger and the development of the City Airport but stressed the need to retain the current level of service.

Larne Borough Council

5.95. Larne Borough Council opposed the merger as its members believed such a development would not serve the interests of the travelling public.

Limavady Borough Council

5.96. Limavady Borough Council expressed concern that a merger of the two airports would remove competition for the supply of airport services in Northern Ireland and as such would reduce choice and increase costs for domestic and European flights.

Newtownabbey Borough Council

5.97. Newtownabbey Borough Council said that generally it was opposed to monopolies unless any clear advantages could be seen and guaranteed. No such advantages had been brought to the Council's attention regarding the proposed merger.

5.98. The Council thought a merger, which would effectively deny choice to travellers to and from Northern Ireland, was not in the best interests of the consumer. Perceived loss of service would include control of where flights left from and to which destinations they travelled; lack of ability by carriers to decide their 'port of entry' to Northern Ireland; possible increases in landing charges and fares due to lack of competition; possible loss in the variety and scheduling of flights and subsequent loss of special offers on key routes, eg Belfast-London; and restrictions on existing and potential new carriers from developing new routes.

5.99. If a merger led to a closure of the City Airport, this would be detrimental to marketing Northern Ireland as a tourist destination. The current political climate had produced a boom in tourism. More higher-quality entry facilities were needed, not fewer.

North Down Borough Council

5.100. North Down Borough Council indicated its unanimous opposition to the proposed merger, following discussions with the airlines and airports involved. The Council's own investigation had highlighted the economic impact of the change in current independent status of the City Airport. If the sale of the City Airport was not approved, the Government might be asked to provide alternative funds to Shorts in the form of selective financial assistance.

5.101. The proposed merger would have a significant adverse effect upon existing competition within relevant services. This might be expected to lead to a hardening of prices for air travel, a reduction in choice of both the number of journeys and destinations served, and a narrowing of the demographic profile of

travellers. The growth of the City Airport had provided a welcome respite to the job loss from the security sector.

5.102. If the competitive pressures on airlines operating from the International Airport were reduced there would be an opportunity, particularly for BA, to reduce flight frequency.

5.103. The long-standing wish by the business community for a daily direct service from Northern Ireland to Brussels might be one useful condition of any subsequent Government approval for the merger. Any attempt to impose effective service safeguards to protect existing operators would be difficult to operate if BIA owned the City Airport. Any safeguards would have to operate in a climate where there were perceived common and strategic benefits for both BIA and the existing airlines operating to Heathrow.

5.104. The economic impact of a run-down of the City Airport could be further aggravated by planning consent being given for the area to develop as out-of-town retail shopping. The development of North Down as a viable tourism destination would be severely threatened by loss of access from London into the City Airport. The lack of rail access to the International Airport would impact on passengers not wishing to use their car.

Omagh District Council

5.105. Omagh District Council considered that the merger would be very much against the public interest due to the monopoly situation which it would create. Not only would the merger result in higher charges for passengers, due to the lack of competition, but also a reduction in choice and quality of service.

Other bodies

Air Transport Users Council

5.106. The Air Transport Users Council (AUC) provided a copy of a letter previously sent to the OFT expressing opposition to the proposed merger. In the AUC's opinion, the development of the City Airport and the increase in the range of services operated from it had enormously increased user choice in Northern Ireland over the past few years. Were BIA to gain control of BCA, there was a clear risk of this competition being deliberately restricted.

Belfast City Airport Forum

5.107. Belfast City Airport Forum consists of representatives from the two adjacent councils to the airport, community groups, airlines, airline users and other interested parties. The Forum expressed complete opposition to the proposed merger, which it felt was contrary to current government policy aimed at encouraging competition. It believed the current route and fare structure which now existed at the two airports had come about only through competition. This had opened opportunities for new passenger markets which had previously been stifled. Also, the geographical location of the City Airport had provided simple and cheap access for a large number of business and leisure travellers living locally and had in turn contributed significantly in developing a tourist industry.

5.108. The recently introduced service to the City of Derry Airport had effectively developed a catchment area in the north-west of the province. This was a new market serving a rapidly expanding commercial area which would be seriously jeopardized if the merger went ahead. The Forum pointed out that prior to the opening of the City Airport, the International Airport had been the second most expensive airport, in terms of landing and handling charges, in the UK.

5.109. In the Forum's view it was essential that the City Airport retained its current route structure and frequency of service in order that the rapidly developing local infrastructure could be fully exploited. A further concern was that the rationalization which would undoubtedly take place if the merger were allowed

would inevitably lead to an unacceptable reduction in employment opportunities in airport and ancillary services.

Belfast Harbour Commissioners

5.110. The BHC wrote to us and attended a hearing. It did not express a view on the proposed merger but gave relevant background information about the Shorts lease and the City Airport licence. The BHC's primary objective was to maximize income for the harbour, and the airport was simply part of the harbour as any other leased area would be.

Civil Aviation Authority

5.111. The CAA wrote to us and attended a hearing.

5.112. There were other examples of airports under common ownership serving the same region, for example in the south-east of England and Scotland, and the fact of ownership was not in itself the principal issue. The potential consequences of the suggested merger between the two Belfast airports did, however, give rise to some concerns. Were BIA to purchase BCA there was always the possibility that the smaller airport would be closed or that its use would be severely restricted by the new owner. Since the City Airport opened, it had experienced rapid growth in the number of airlines, routes and passengers and over the ten years up to 1994 it had increased its share of passengers at the Belfast airports from around 10 per cent to nearly 40 per cent. On many of the routes operated from both airports, more passengers were now using the City Airport than the International Airport. Were the City Airport to be closed as a result of the merger, there would be a loss of an amenity which users clearly enjoyed and users' ability to choose between airports would disappear. The CAA did not have the powers to ensure that an airport remained open.

5.113. On occasion over the past few years, the International Airport had looked to the Government to make formal traffic distribution rules which would specify the types of traffic permitted to use each of the Belfast airports. If the airports were in common ownership, the management could implement an internal distribution policy which would have the effect of reducing the attractiveness of the City Airport, perhaps by reserving all the prime routes and services to the International Airport. The City Airport currently held an ordinary use aerodrome licence from the CAA which provided for the airport to be used by the licensee and by persons specifically authorized by him. This in effect allowed the airport to determine who might fly into the airport and on what conditions. Under the Air Navigation Order, application could be made to the CAA by certain people, or the CAA might itself propose, to substitute a public use licence for an ordinary use licence. A public use licence required the holder to allow access to the airport to all persons on equal terms and conditions. It was worth consideration whether, as a condition of the merger, both airports should hold a public use licence in perpetuity. The International Airport already had a public use licence.

5.114. The Belfast airports would become subject to economic regulation from 1 March 1996. This would allow the CAA to deal with complaints about discriminatory, exclusionary or other anti-competitive behaviour by the regulated airports. It was also open to the Government to designate airports for more detailed control over their charges to airlines. In its review in March 1995 of the framework of airport economic regulation under the 1986 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 a monopoly position; the scale and timing of investment, and their implications for profitability; and efficiency and quality of service. Since the airports in Northern Ireland were not yet regulated, the CAA did not have access to the information which was needed to reach a firm view on whether either of the Belfast airports should be designated against these criteria. However, the complaints procedure, which would apply to any regulated airport, ought to be sufficient to deal effectively with most cases of potential abuse.

5.115. It was difficult to determine how effectively one airport could compete with another, however much it wished to do so, since airlines did not admit to being particularly heavily influenced by airport competition. An airline's choice of airport was not determined particularly by local charges, which were a fairly small proportion of total costs, and the airline might or might not pass on any differences in airport charges to its passengers. Such competition as there was would be done by special deals. The level of service

also influenced choice. The issue in this case was essentially one of airline rather than airport competition. There was a fair degree of competition among the smaller airlines to Belfast, which was undoubtedly to a large extent influenced by the access that some of them had to the City Airport. The evidence was that the City Airport was greatly valued by those who used it and the range of services from provincial points to Belfast was certainly greater than it would otherwise be because of the City Airport.

5.116. There were no other cases in the UK of comparable competition between airports. Although the CAA saw advantage in competition between airports, it was not true that efficiency and quality of service could be improved only through competition. Quality of service was often closely related to the character of the management of an airport.

5.117. Following the introduction of economic regulation of airports in Northern Ireland, the CAA's first step would be to apply an accounts condition to the two Belfast airports, which would require them to add to their ordinary accounts a breakdown between 'regulated' income and the rest. If airlines complained that charges at either airport were excessive, the CAA could investigate and, if appropriate, recommend to the Secretary of State that the airport be designated. In answer to a question about the effectiveness of designation, the CAA said that it thought the charges at Heathrow were lower than they would have been if the airport had not been designated. Asked why it thought the City Airport ought to be required to hold a public use licence if the merger went ahead, the CAA said that a public use licence would prevent the management of the merged entity from excluding from the City Airport the smaller airlines with smaller routes. It could see no reason for BIA to take over the City Airport other than to limit its operation in one way or another. If the merger went ahead, the CAA thought it would be desirable to try and ensure that the City Airport was kept open.

5.118. The CAA saw regulation as second best. Common ownership of the two airports subject to the constraining regulatory powers would not be as good as separate ownership.

Department of Economic Development (Northern Ireland)

5.119. The Department of Economic Development (Northern Ireland), which is responsible for industry and commerce in Northern Ireland, argued that it would be in the best interest of the economy and the consumer for the two Belfast airports to remain in separate ownership.

Department of the Environment, Northern Ireland

5.120. The DoE(NI) wrote to us and attended a hearing.

5.121. Before making a submission and giving evidence to the MMC, the DoE(NI) had sought the Minister's view on the proposed merger. The question of competition between the airports had first been considered at the time of the sale of the International Airport, when Bombardier/Shorts had expressed an interest in acquiring the International Airport. The DoE(NI) view at the time accepted that a purchase by Bombardier would diminish competition, but had felt this could be rectified by regulatory mechanisms. In considering the sale of the International Airport, the DoE(NI)'s advisers undertook an assessment of the 'strategic premium', which was an assessed amount by which the combined entities of BIA and BCA would exceed the sum of their values as independent entities. The individual valuations were: BIA £30 million, and BCA £[*]. Based on the assumption that the City Airport would close and all airline operations be transferred to the International Airport, the estimated combined entity valuation was £[*]. This had resulted in an estimated strategic premium of £[*]. This clearly indicated the significant potential value of the BCA acquisition to BIA. The Sale and Purchase Agreement for BIA includes a secondary consideration of £5 million to be paid to the Government in the event that BIA acquired BCA (or vice versa) within ten years of privatization.

5.122. The International Airport could readily absorb any operations diverted from the City Airport without requiring further infrastructure improvements. There were potential savings in ATC costs, employee

*Figures omitted. See note on page iv.

costs and general administration costs if the merger went ahead. A reduction in the scale of operations at the City Airport would have a considerable impact on the noise climate in the surrounding area and there would also be other environmental benefits. On the other hand, the merger might deny to airline operators the choice and the bargaining power that competition brought. Passengers could also be disadvantaged as many used the City Airport because of its proximity to the city centre and the commuter belt of North Down. Any reduction in services at the City Airport might have a serious adverse effect on the City of Derry Airport which had been developing its services in recent years. The chief hope for the future for City of Derry Airport was through the connecting service provided by JEA with its services from the City Airport. The merger of both operations would affect the competitiveness which had been built up in relation to the provision of airport services to airline operators and this could in turn affect the pricing structure for passenger fares, particularly on the London routes. It would also limit the choice available to passengers.

5.123. There were arguments for and against the merger. On the one hand the curtailment of development at the City Airport, resulting from a merger, would have significant environmental benefits, not least for those in east Belfast living under the flight path. It would also almost certainly prevent a possible contentious planning application for extended terminal facilities at the City Airport when the DoE(NI) would have to make public a choice between the economic case for further development and its environmental consequences. A merger would also lead to synergy gains, some of which might be secured for the travelling public through regulation of charges. On the other hand, competitiveness was a primary element of Government policy and regulation was introduced only when absolutely necessary. The very high costs of establishing an airport and the difficulty of identifying a suitable site meant that it was very unlikely that another player could enter the market. Competition between the airports had seen the development of many new routes to regional Great Britain destinations with total passenger numbers up from 1.8 million in 1984 to 3.3 million in 1994. The absence of overland routes between Northern Ireland and other UK regions meant that air services from Northern Ireland, and thus airports, lacked competition from other travel modes. This meant that competition between the airports assumed greater importance than was the case with Great Britain airports such as Glasgow and Edinburgh. It was the DoE(NI)'s view that on balance, where any competition was present and could be retained, such competition protected the interests of the consumer better than regulation. The DoE(NI) was inclined to oppose the merger on the grounds that the benefits to the consumer of retaining the present competitive situation outweighed any advantages occurring from the merger.

5.124. The City Airport was overcrowded and uncomfortable for passengers at peak times. If the City Airport were to apply for planning permission to expand, this would be very contentious indeed. There had been a common perception by the public many years ago that the two airports did not compete, because the International Airport looked towards the volume London traffic and the City Airport looked after the inter-city hops. But this had now all changed. About a quarter of all Belfast-London trips were now made from the City Airport. This reflected consumer demand. The International Airport was attractive to those who needed to fly to Heathrow.

5.125. When the DoE(NI) was asked to comment on the evidence provided for the MMC by the two airports suggesting that there was no competition, it pointed out that BIA started an advertising campaign in 1994 aimed at attracting passengers from the City Airport; the advertisements, which included claims such as 'One airport treats business travellers better' were banned by the Advertising Standards Authority following a complaint from BCA. BIA had stated publicly in *The Irish Times* in June 1995 that if it did not succeed in buying the City Airport, it would continue to compete aggressively with it.

General Consumer Council for Northern Ireland

5.126. The General Consumer Council for Northern Ireland wrote to us and attended a hearing.

5.127. The Council had considered the question of ownership of the Belfast airports some years ago in the lead-up to the privatization of the International Airport. It had taken the view that consumer principles such as access and choice required competition between airports. For these reasons it had recommended that the two airports should be under separate ownership. The Council continued to take this position.

5.128. The proposed merger would return the markets for Northern Ireland airport services and provision of domestic scheduled flights to a virtual monopoly. The existence of the two airports had brought

advantages to passengers which it would be loath to see threatened. With the entry of the City Airport in 1983 the market for air travel had expanded considerably in Northern Ireland. Most of this growth had been through the efforts of the City Airport. The competition from the City Airport had spurred the International Airport to fight back for business, and had led to improvements in air services: for example, an increase in the choice of destinations; a higher frequency of scheduled departures; and a wide selection of fares available.

5.129. The benefit to consumers from competitive market development was illustrated by JEA's move to turn the City Airport into a regional hub with regular services to Londonderry. Monopoly ownership of the airports, and relegation of the City Airport to a secondary role in the scheduled regional market, would inhibit the airline entry and innovation which led to increased service and market expansion. The loss of choice which would occur with monopoly ownership of the Belfast airports would be particularly serious because of the isolated, island situation of Northern Ireland.

5.130. A survey commissioned by the Council in autumn 1994 had shown that many Belfast area residents and workers liked the convenience of the City Airport. Especially in the area of commercial services at the airport, passengers were better satisfied with the International Airport.

5.131. Some safeguards, in the event of the proposed merger taking place, were provided by the Airports (Northern Ireland) Order 1994, but the Council believed passengers would be better served by the airports remaining under separate ownership.

5.132. The City Airport's market share had climbed persistently over the last ten years. The City Airport had been successful because it had been responsive to customer demand. The International Airport had been either unwilling to allow the smaller airlines to come in or uninterested in negotiating contracts which would facilitate them particularly in terms of the landing charges. The City Airport had been more flexible and responsive to the expression of customer need in a way the Council considered the International Airport had not been. In the early 1980s there had been a new sort of deregulatory environment, which had led to more small airlines starting up (which simply would not have been possible before), an expansion of the number of people travelling, and a shift from ferry travel to air travel. Possibly the fact that the International Airport was in a monopoly position and was in the public sector at the time of this expansion had meant that there had been a lack of responsiveness and a lack of imagination. Once the City Airport had opened, there were a variety of different ticket prices and ticket arrangements available which had attracted passengers and accelerated the move away from the ferries.

5.133. The Consumer Council added that BIA had objected to the role envisaged for the City Airport as a 'regional airport' at the time of the 1990 inquiry into the Belfast Harbour Local Plan. BIA had also lodged an objection in 1992 when Manx Airlines applied to the CAA to run a service from the City Airport to London Heathrow.

Hollywood Residents' Association

5.134. Hollywood Residents' Association expressed strong concerns about the proposed merger. The Association said that its 450 members had followed with close interest the growth and development of the City Airport since it opened in 1983. It welcomed the proximity of the airport to Hollywood with its convenience for residents in the North Down area and its importance to the economic development of the area. The Association was opposed to the merger because of the serious impact it would have on the future economic life of Hollywood and North Down; the loss of employment opportunities which could result; the reduction in spending power locally which would impact on Hollywood's commercial life; the impact on hotels and guest houses in the area presently used by staff or employees of airport operators; the effect on the upsurge now taking place in tourists coming into the North Down area; the inconvenience which might result for the many business and professional people living in the area who made regular use of the City Airport; the possibility of increased fares; and a reduction in the number of flights available to potential users.

5.135. The Association was particularly concerned that the merger might result in the eventual closure of the City Airport. With current developments and planning applications for large multinational stores on land in close proximity to the airport there was no doubt that those with vested interests in the sale of the airport site would find ready purchasers to pay any price demanded. Such developments would have catastrophic

effects on Holywood and North Down. The Association argued that it was in the best interests of all concerned that the two airports should continue to exist under separate ownership.

Institute of Directors, Northern Ireland Division

5.136. The Institute of Directors, Northern Ireland Division, representing some 670 members, said that it was intensely interested in airport and airline growth in the province.

5.137. The Institute emphasized that the development of the City Airport, the new services to many parts of the UK, their frequency, and the convenience of the City Airport to Belfast city centre and the North Down hinterland, coupled with the airline competitiveness and facilities of the International Airport, had been of great value to business, including tourism. In the Institute's view, the MMC inquiry gave an opportunity for longer-term strategy rather than simply seeing two regional airports, 17 miles apart, as competitors. The absence of night curfew at the International Airport and the convenient location of the City Airport were pluses which deserved dynamic exploitation through quality management and greater investment, particularly in the increasingly important international market. The Institute added that the appointment of a regulator by the CAA would ensure that the customer interest was paramount, through reduction of airport charges, reduced fares, improvements in access and facilities at the City Airport, but most particularly through improvements in the management and staff costs area.

Irish Congress of Trade Unions

5.138. The Northern Ireland Committee, Irish Congress of Trade Unions (ICTU), told us that, having consulted the unions with membership at both airports, it had initially decided not to make any submission. The Committee thought the primary issues at present were mainly of concern to consumers. However, having considered additional information available to it and having again consulted with its affiliated unions the Northern Ireland Committee, ICTU, came to the view that common ownership of the two airports would, in effect, create a very important and powerful monopoly which would be against the best interest of the travelling public. It would also be detrimental to the interests of Northern Ireland as a whole, and especially the economic interests of the province given the importance of adequate and effective air links in business, commercial and economic activity. The ICTU therefore opposed the possible purchase of BCA by BIA and urged the MMC to rule against the proposal.

Jersey Transport Authority

5.139. Jersey Transport Authority pointed out that a number of scheduled and charter flights operated between Belfast and Jersey in the summer months, and Northern Ireland was an important and growing market for Jersey tourism. It had no reason to believe that, if the two Belfast airports were to merge, there would be any less interest on the part of those operating the airports in encouraging an increase in aircraft movements, including those to and from Jersey.

Ministry of Defence, Royal Air Force

5.140. The MoD told us that the Armed Forces made use of both Belfast airports and the MoD therefore had a keen interest in how any commercial changes might affect military operations. The use of the airports was governed by a series of agreements, all of which were expected to remain binding on current or future operators of the facilities. The MoD would need, in order to safeguard its interests, to receive assurances that these operating agreements, which also covered aspects such as security measures, landing fees and 24-hour access, would continue to be honoured. The MoD said that it would also wish to receive an undertaking that costs associated with 24-hour access and landing fees would not be unreasonably increased once the elements of existing competition between the two airports were removed.

National Air Traffic Services

5.141. We asked NATS to comment on the potential for making savings by providing a joint ATC service for the International Airport and the City Airport. NATS told us that, if its staff at the International Airport were also to provide an approach ATC service for the City Airport, it could probably manage the combined operation with slightly fewer air traffic controllers, engineers and support staff than currently employed to provide the service separately from both airports. Aerodrome control would still be needed at the City Airport. Overall, NATS considered that savings of between £200,000 and £300,000 a year might be achieved but it would need to investigate the position at the City Airport to make a reliable estimate. Although these savings could, in principle, be achieved with the airports in separate ownership, they had not been achieved in the past. This was possibly due to lack of trust between the managements of the two airports and BCA's reluctance to have its airport's approach controlled by staff located at the other airport.

Northern Ireland Economic Council

5.142. The Northern Ireland Economic Council told us it had been concerned that such a merger might occur at the time of the privatization of BIA (in 1994). It had recommended that ownership remain divorced to preserve the element of competition between the airports that had benefited consumers in both fare levels and destinations offered.

5.143. The Council referred the MMC to its November 1993 report, *Transport Infrastructure and Policy in Northern Ireland*. This had stated (page 139ff) that EC assistance had originally been given towards proposed developments at the City Airport because it was regarded as 'complementary' in nature to those developments approved for the International Airport. However, the report went on to say that it was likely that the two airports would become increasingly competitive rather than complementary, at least in terms of the domestic market.

5.144. Recent events had, if anything, strengthened the arguments in favour of separation of ownership. The ceasefires were likely to see a substantial increase in air passenger traffic, both business and tourist. It was therefore important that competition was retained with respect to destinations served, quality of service and airport charges, all of which could easily deteriorate in the presence of a monopoly. Such a danger was particularly ominous in view of the province's peripheral location.

5.145. The Council added that both airports served common destinations and therefore, since passengers and airlines could select either airport, there was some element of competition. If the airports were to remain under separate ownership, then there was always the threat of competition. In other words, the market was contestable, in which potential competition mattered as much as actual competition.

Northern Ireland Tourist Board

5.146. The Northern Ireland Tourist Board (NITB) wrote to us and attended a hearing.

5.147. The NITB had an active interest in developing better access routes into Northern Ireland, which was at present badly served by the lack of scheduled services into Europe (only Amsterdam) and few intra-Ireland services. Northern Ireland was perceived by operators as a 'thin' and low-yield market, with a catchment area population of under 2 million and a high leisure content. On short-haul routes, airport charges had become a major cost item to airlines when the market potential offered low profit margins. The apparent high level of airport charges in all categories at the International Airport, at one time the highest in the UK, and still at the top end of the range, had been a constant deterrent (and cause of complaint) to airlines operating services into Northern Ireland. The NITB thought a number of European and domestic services might have failed because of these features of high cost and low yield.

5.148. The market had been well served to date by the development of the City Airport with apparently a more competitive package of airport charges. This had encouraged more domestic services to Great Britain destinations (but not yet intra-Ireland) and more competitive fares to London area airports.

5.149. The NITB stressed the importance of the London market which accounted for around 80 per cent of total passenger movements in and out of Northern Ireland. This had attracted a number of new operators at the City Airport and also at the International Airport and was critical to the viability of both airports. The NITB pointed out that the City Airport had taken up most of the growth in air passenger movements in the Northern Ireland market during the five years 1989 to 1994 and its operators had pioneered new domestic routes. The City Airport's rapid success had not, however, been matched by the development of a difficult site for airport terminal facilities offering poor car parking, difficult exit and entry to the Sydenham by-pass and terminal facilities which had failed to keep pace with passenger growth. The present facilities at the City Airport gave a poor introduction to Northern Ireland.

5.150. While the City Airport had become an accepted access airport to Northern Ireland and now accounted for a third of the air passenger market, connections and interlining between the two airports had not been improved. There was no direct bus service between the two airports and transfer was expensive (by taxi) and slow (by bus to the city centre). There was occasional confusion to visitors because of this lack of communication; and irritation to residents when flying out from one airport and back to another.

5.151. In theory there was no justification for a city the size of Belfast or for a region with a population of 1.5 million to have two airports 17 miles apart, but in practice the two airports had become accepted. The City Airport filled a role in the growing trend and demand for city centre airports; and it had encouraged lower airport charges and therefore more choice of air services. If joint ownership and management of the two airports were to take place, the NITB said that it would like to see a strong regulator on airport charges, the continuation of London area services from the City Airport, more investment in the City Airport, and better surface links between the two airports.

5.152. Monopoly control of airport services in Northern Ireland could lead to high levels of profitability for the management company. Any new resources generated from more efficient airport management must be applied to lower airport charges and assist the development of new scheduled services to Europe as well as incoming charters from Europe, an area of potential and benefit to Northern Ireland which had not been well served. On balance, the NITB considered that the proposed merger was against the public interest, but, if allowed, should be subject to the safeguards set out above.

5.153. The NITB was concerned that a monopoly could smother innovation and place an emphasis on simply increasing profit for the major investor in the International Airport, rather than taking a broader, longer-term view of trying to grow new business. The NITB was worried as to whether or not the City Airport would have a long-term future if it came into the hands of BIA.

Strangford Unionist Association

5.154. Strangford Unionist Association wrote to us saying that the proposed merger would reduce the choice available for passengers, particularly in east Belfast and North Down areas, flying to popular destinations which had been a feature of recent years in Northern Ireland. The proposed purchase would constitute a monopoly situation.

Others

Air BP Ltd

5.155. Air BP Ltd, which employs fuelling staff at both airports, said that, subject to safeguards relating to the continuance of both airports, it had no objection to the proposed merger. It was concerned about the possible closure of the City Airport. If one airport were closed, staff would have to be reduced. The City Airport was conveniently located to some of BP's other operations. The availability of two airports serving Belfast was an advantage to Air BP Ltd and other businesses operating throughout Northern Ireland.

Aldergrove Airport Hotel

5.156. Aldergrove Airport Hotel, which is 50 per cent owned by BIA, thought the merger would prove to be a positive step forward for air travel services in Northern Ireland. During the past year, the Board of Management of BIA had proved to be both forward thinking and dynamic in its management of the airport. Customer services had improved in a dramatic way with a strong emphasis on customer care. This viewpoint had been borne out by the many comments received from hotel guests using the airport. The hotel thought this ethos would be carried forward with the proposed merger, which would improve customer services for travellers.

5.157. The hotel believed consolidation of air travel facilities and services would also have a number of benefits for Northern Ireland as a whole. It would make Northern Ireland a more attractive destination for direct European flights and eventually for long-haul flights; it should make the generation of capital for the maintenance of first-class customer facilities more accessible; it would assist in the establishment of an efficient transportation network linking both airports and the city centre; and it would enable Northern Ireland to compete for traffic with other airports in the UK and in the Republic of Ireland. This would prove beneficial to those providing accommodation and catering facilities for tourists to Northern Ireland. Finally, common ownership by a home-based company which had proved itself in the Northern Ireland business community would be a further morale boost to the community in general.

Alpha Airports Group plc

5.158. Alpha Airports Group plc, which operates an in-flight kitchen as well as shopping units at BIA, thought the merger of the two airports should not adversely affect competition and would not increase costs to the consumer. The City Airport, with its limited runways, principally served the domestic scheduled business and therefore did not compete with the larger aircraft using the International Airport.

A resident of County Down

5.159. A resident of County Down was concerned at the increasing number of flights and resultant aircraft noise levels from the use of the City Airport. He thought if BIA acquired BCA the number of flights from the City Airport might be kept to a more acceptable level.

Economics Plus Ltd

5.160. Economics Plus, a firm of economic consultants, stated that since its entry into the Northern Ireland market in the early 1980s, the City Airport had experienced a remarkable and unprecedented rate of growth in passenger numbers. The entry of the City Airport had served a latent demand, had provided a significant benefit to air travellers to Northern Ireland, and had expanded the size of the market. In the event of a merger, one could hypothesize a number of scenarios. Both airports could continue as they did now; the City Airport could be wholly or partially closed; or both airports could continue but be operated as a co-ordinated non-competing system with fees at both increased to extract monopoly rents. The first scenario appeared extremely unlikely to occur. The theoretical argument in favour of the second scenario was that there were economies of scale, scope or density so that the lower cost structures of a combined operation enabled a more profitable enterprise. However, at about the present size of the International Airport, economies of scale were largely exhausted. This second scenario would not appear to offer operating economies commensurate in size with the substantial loss of benefits to Northern Ireland air travellers that would follow from closing the City Airport. The third scenario appeared to be the most likely outcome with user fees set at both airports in excess of current levels. At the present time both airports enjoyed a small degree of market power, but in both cases this was relatively weak. A merger would increase significantly the market power of the combined interest in both short-haul and medium-haul flights and in both the Belfast City and Northern Ireland market, and the merged entity might exploit this power. It might be argued that airport user fees were a very small proportion of total airline costs and hence ticket prices. However, while the proportion of the ticket price that was accounted for by airport user fees on average was small, this was less true for short-haul routes.

5.161. Aside from efficiency, there was also a distributional argument to consider. If a prospective merger had been encouraged at the time of the sale of the International Airport, the bid price for the assets of the International Airport was likely to have been higher than in fact it was. A buyer such as Bombardier would have included monopoly rents in its bid and the public sector would have received higher proceeds from the sale. In the event of allowing the now privatized International Airport to take over the City Airport, the potential monopoly rents would be shared between the owner of the International Airport (the purchaser) and Bombardier (the seller). It might be judged, therefore, that the public sector had been 'short-changed'.

5.162. Economics Plus believed, therefore, that the merger would not be in the public interest. The combined entity would enjoy increased market power without much prospect of offsetting efficiencies. In the event that the merger was approved, conditions should be introduced. These conditions should include: the designation of both airports; the imposition of a price cap on traffic charges at both airports; an undertaking that services from both airports continue; and that the City Airport's current hours of operation be maintained.

Isle of Man Steam Packet Company Ltd

5.163. The Isle of Man Steam Packet Company Ltd pointed out that as a shipping company its interest in air services was in business travel to and from Belfast Port, which was admirably served by the City Airport. The company said that it had no objection to the merger of the two airports, as long as the City Airport was safeguarded with regard to services to and from the Isle of Man. The company argued that any pressure, whether financial or otherwise, from the airport owner to transfer Isle of Man services to the International Airport would be quite unacceptable. A safeguard against this should be incorporated if permission were given for the merger to go ahead.

Mr A T Jackson

5.164. Mr A T Jackson, a resident of County Down, stated that the vast majority of people in the Belfast area did not want the International Airport as the owner of the City Airport. This would greatly inhibit competition and be very bad for the travelling public.

Mr D Kennedy

5.165. Mr D Kennedy, an Environmental Health Officer, submitted an independent investigation carried out in 1994 into complaints from local residents of odours associated with the City Airport. The investigation concluded that the source of the odours did not appear to be aviation fuel or aircraft emissions.

Mrs J Parkinson

5.166. Mrs J Parkinson, an Environmental Health Officer with Castlereagh Borough Council, submitted a thesis on aircraft noise in the area of the City Airport, completed in September 1995. The thesis found that any intensification of use of the City Airport would have a much more significant effect on residents in east Belfast than for those living in Holywood. The author suggested a social survey of residents to assess the full extent of annoyance in the vicinity.

Servisair plc

5.167. Servisair, an independent ground handling company, said that it had begun ground handling operations in the UK in 1954 and its operation at the International Airport in 1967.

5.168. Servisair felt that the merger proposal would be to the benefit of the public and of Northern Ireland generally. Servisair did not see any conflict of interest if both airports were to fall under the control of a single organization as it believed the strong competition which currently existed was among the carriers which serviced the Northern Ireland market, rather than among airports. There was no reason to believe this

would not continue with joint ownership. Servisair pointed out that there were precedents, both within the UK and overseas, for ownership of a group of airports serving a single destination, and this was not seen as being anti-competitive.

5.169. The City Airport was in urgent need of substantial investment to improve the level of customer services. The cost of redeveloping the airport would have to be met either by increasing user charges or by expanding the number of flights handled. Servisair thought the net effect of increasing charges would be to make the airport less attractive to its current users and perhaps cause them to consider transferring their operations to the International Airport. The planning constraint which presently capped the number of ATMs at the City Airport would also reduce its ability to expand the number of flights handled.

5.170. Were the ownership of both airports to lie with a single organization, these difficulties could be overcome through a redistribution of the destinations served from each airport. Following a merger, Servisair anticipated that the baggage handling at the City Airport would be offered to an independent operator rather than being operated directly by the airport owner as at present, which would result in the introduction of new equipment and improved service standards.