

## APPENDIX C

# The business of Gatwick Airport Limited

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- C1 This appendix provides an overview of the current ownership and history of Gatwick and the business of Gatwick Airport Limited (GAL). In particular, it examines:
- Services GAL provides to different users of Gatwick.
  - Sources of GAL's revenue.

## The ownership of Gatwick

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- C2 Gatwick is owned by GAL which is, in turn, owned by Ivy Bidco Limited (Ivy), a company formed to undertake the acquisition of GAL. Ivy is controlled by funds managed by Global Infrastructure Management, part of Global Infrastructure Partners (GIP). GIP has a 42 per cent controlling stake in GAL.<sup>1</sup>

## The development of Gatwick

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- C3 Gatwick is a single runway airport located around 40 kilometres south of central London.
- C4 The airport opened in 1930<sup>2</sup> but it was not until 1953, when the Government determined that Gatwick would be London's second airport, that it attracted major investment.
- C5 By 1956, Gatwick had been transformed into a modern facility with a 610 metres runway, a terminal incorporating a rail station and a covered pier linking terminal with aircraft.<sup>3</sup>
- C6 In 1965, the British Airports Authority (later BAA), was established and assumed ownership of Heathrow, Gatwick, Stansted and Prestwick airports.<sup>4</sup>

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<sup>1</sup> GAL, Ownership, <http://www.gatwickairport.com/business/about/ownership/> (accessed 1 December 2012).

<sup>2</sup> GAL, <http://www.gatwickairport.com/business/about/history/> (accessed 11 December 2012).

<sup>3</sup> GAL, <http://www.gatwick-airport-guide.co.uk/history.html> (accessed 11 December 2012).

- C7 In 2006, BAA was acquired by Airport Development and Investment Limited, a consortium led by Grupo Ferrovial.<sup>5</sup>
- C8 In 2008, the European Union – United States of America Open Skies Agreement came into effect, which allowed any European and US airline to fly between any point in Europe and any point in the US. As a consequence, a number of US airlines relocated from Gatwick to Heathrow.<sup>6</sup>
- C9 In March 2007, the Competition Commission (CC) launched an investigation into BAA's ownership of airports within the UK.<sup>7</sup> However, in 2008, ahead of the CC's decision, BAA announced that Gatwick would be sold. In December 2009, GIP took ownership of GAL.<sup>8</sup>
- C10 In mid 2010, GAL revealed Gatwick's new brand identity and outlined its plans for the airport.<sup>9</sup>
- C11 In 2010, following a change in Government, the Government indicated that it would not permit further runway expansion at the designated airports<sup>10</sup>, including development of a new runway at Gatwick, until its new aviation strategy had been developed.

## Facilities at Gatwick

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- C12 This section describes the scale and disposition of the current facilities at Gatwick that fall within the airport area, as defined in sections 66 and 67 of the Civil Aviation Act (the CA Act).

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<sup>4</sup> GAL, <http://www.gatwickairport.com/business/about/history/> (accessed 11 December 2012).

<sup>5</sup> GAL, <http://www.gatwickairport.com/business/about/history/> (accessed 11 December 2012).

<sup>6</sup> Airline network news and analysis, <http://www.anna.aero/2009/01/30/open-skies-shifts-demand-from-gatwick-to-heathrow/> (accessed 18 December 2012).

<sup>7</sup> CC, [http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/inquiry/ref2007/airports/pdf/core\\_terms\\_of\\_reference.pdf](http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/inquiry/ref2007/airports/pdf/core_terms_of_reference.pdf) (accessed 6 March 2013).

<sup>8</sup> GAL, <http://www.gatwickairport.com/business/about/history/> (accessed 11 December 2012).

<sup>9</sup> Gatwick Airport Consultative Committee, <http://www.ukaccs.info/gatwick/profile.htm> (accessed 11 December 2012).

<sup>10</sup> Department for Transport (DfT), <http://www.dft.gov.uk/news/speeches/villiers-20101214/> (accessed 8 November 2012).

## The runway

- C13 The primary runway at Gatwick is suitable for operations in low visibility conditions (an instrument runway) and is 3,316 metres long.<sup>11</sup> There is also a parallel standby runway that is used when the primary runway is unavailable.<sup>12</sup>

## The terminal

- C14 Gatwick has two passenger terminals that occupy approximately 18 hectares of land.<sup>13</sup>
- The South Terminal has a gross floor area of around 160,000 square metres, of which a little under 15,000 square metres is retail facilities.<sup>14</sup>
  - The North Terminal has a gross floor area of around 98,000 square metres, of which around 12,500 square metres is retail facilities.
- C15 In terms of check-in desks, there are around 190 in the South Terminal and 160 in the North Terminal. In addition, there are around 90 self-service kiosks.<sup>15</sup>

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<sup>11</sup> GAL, <http://www.gatwickairport.com/business/about/facts-figures/> (accessed 11 December 2012).

<sup>12</sup> This is a visual runway (it cannot be used in low visibility conditions) with a pavement length of 2,565 metres. Source: GAL, Gatwick Master Plan, July 2012, p. 42.

<sup>13</sup> Associated facilities within the passenger terminals include office buildings, baggage handling facilities, boilers and chillers and air/cabin crew reporting facilities. Source: GAL, Gatwick Master Plan, July 2012, p. 42.

<sup>14</sup> GAL has, however, recently redeveloped the South Terminal security area at Gatwick by introducing family-friendly security lanes and changing the way it looks after passengers with reduced mobility. Source: GAL, <http://www.gatwickairport.com/business/about/facts-figures/> (accessed 11 December 2012).

<sup>15</sup> GAL has indicated that reducing queues and delivering a smoother check-in experience was one of its early priorities and that as a result, working with Norwegian Air Shuttle, it created a check-in 'test lab' in the South Terminal which allows passengers to use self-service kiosks to check-in and tag their own bags. Source: GAL, Airport competition: Competing to grow and become London's airport of choice, An initial submission from Gatwick Airport to inform the CAA's review of airport competition, November 2011, Q5-050-LGW05, p. 63.

## Aprons and piers

C16 The apron area at Gatwick is currently around 161 hectares and comprises aircraft parking stands (37 per cent), taxiways (52 per cent), fuel farm (6 per cent) and piers, fire station, control tower, etc (5 per cent).<sup>16</sup>

## Aircraft stands

C17 The aircraft stands at Gatwick can be used flexibly for a range of different aircraft sizes, including the A380.<sup>17</sup> GAL has indicated that it can accommodate up to 150 smaller aircraft or 115 aircraft if all stands are used for large aircraft.<sup>18</sup>

## Surface transport facilities and car parks

C18 Surface transport facilities accessible at Gatwick include rail links and a rail station, bus and coach station, road network, car parks, hire car and taxi facilities.<sup>19</sup>

- A rail station, which is located at the South Terminal, that provides access to central London and a range of other destinations.<sup>20</sup>
- The motorway system, in particular, the M23 and M25 road networks which connect the airport to London and the rest of the UK.<sup>21</sup>
- Car rental pick-up, drop-off and valet facilities, waiting areas for taxis and coaches, the main bus and coach stations serving both terminals, and the terminal forecourt road systems.<sup>22</sup>
- GAL's car parks at Gatwick, which provide around 34,000 spaces.<sup>23, 24</sup>

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<sup>16</sup> GAL, Gatwick Master Plan, July 2012, p. 43.

<sup>17</sup> GAL, <http://www.gatwickairport.com/business/about/facts-figures/>, (accessed 11 December 2012).

<sup>18</sup> GAL, Gatwick Master Plan, July 2012, p. 43.

<sup>19</sup> This information is provided to provide context. Section 66 of the CA Act states that the definition of airport specifically excludes hotels (except those situated in a passenger terminal that is part of an airport), bus, tram and railway stations.

<sup>20</sup> GAL, <http://www.gatwickairport.com/transport/trains/>, (accessed 11 December 2012).

<sup>21</sup> GAL, Gatwick Master Plan, July 2012, p. 45.

<sup>22</sup> GAL, Gatwick Master Plan, July 2012, p. 46.

### Cargo facilities

C19 The cargo centre at Gatwick covers approximately 11 hectares. This is made up of 23,000 square metres of cargo shed, office accommodation, areas for HGV loading, unloading and parking, and open equipment parking areas. The cargo sheds are not owned by GAL but are owned by a third party with a long term ground lease.<sup>25, 26</sup>

### Aircraft maintenance

C20 Over recent years, GAL has reduced the hangar provision available at Gatwick through the demolition of some facilities south of the runway. British Airways (BA) now uses the one remaining hangar in this location on a 5 hectare site. There is a second maintenance hangar (approximately 4 hectares) to the north of the runway. This hanger is currently used by Virgin Atlantic Airways (VAA).<sup>27, 28</sup>

### Other facilities

C21 At or near Gatwick there are also a number of other ancillary facilities that help support GAL's operations, including hotels, offices, vehicle and equipment maintenance, contractors' compounds, filling stations and a police station. A number of separate on-airport sites of approximately 33 hectares accommodate these activities.<sup>29</sup>

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<sup>23</sup> In addition to the spaces that it provides, GAL has indicated that other car park operators provide approximately 23,000 spaces.

<sup>24</sup> GAL, Gatwick Master Plan, July 2012, p. 46.

<sup>25</sup> GAL, Gatwick Master Plan, July 2012, p. 44.

<sup>26</sup> GAL owns the land. If necessary, the CAA will carry out an operator determination to assess whether GAL is the operator of this site.

<sup>27</sup> GAL, Gatwick Master Plan, July 2012, p. 45.

<sup>28</sup> GAL owns the land but leases it out on long-term contracts. BA runs one hangar and VAA runs the other. The CAA is carrying out a separate operator determination to determine whether GAL is considered to be the operator of the areas for the purposes of the CA Act.

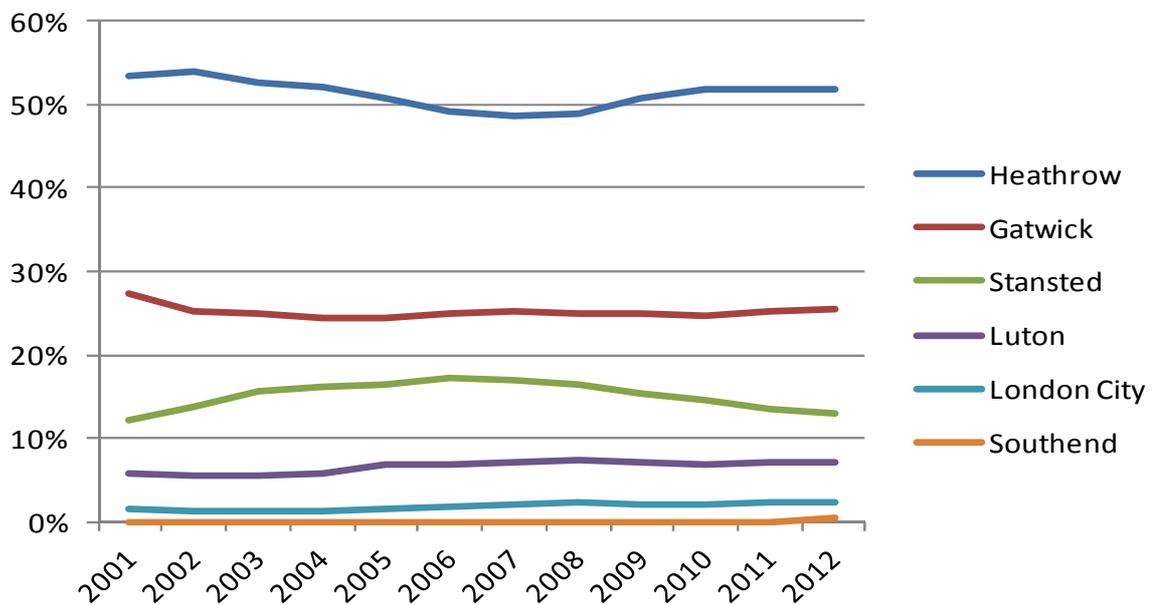
<sup>29</sup> GAL, Gatwick Master Plan, July 2012, p. 45.

## Gatwick’s traffic and customers

### Traffic trends

C22 In 2012, Gatwick had 53 airlines each serving more than 10,000 passengers a year and was the second busiest London airport in terms of passenger numbers.<sup>30</sup> This is illustrated in Figure C.1 (below), which shows that in 2012, Gatwick accommodated around 25 per cent of London's passengers, compared to the 52 per cent achieved by Heathrow and the 13 per cent achieved by Stansted.

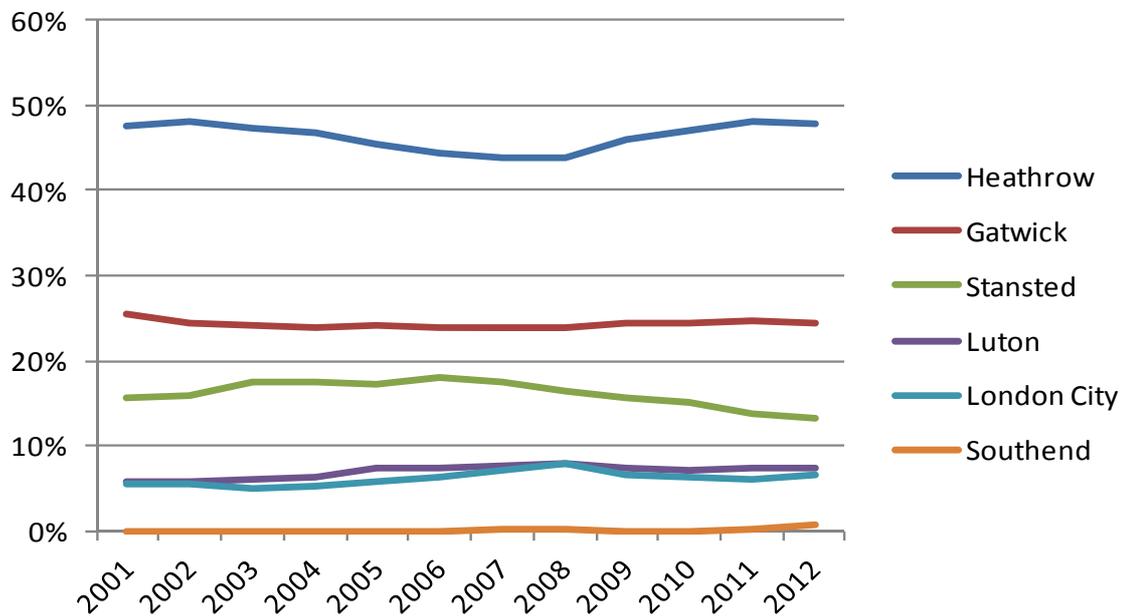
**Figure C.1: Airports’ shares of passengers at London airports (2001 – 2012)**



Source: CAA airport statistics.

C23 Gatwick is also the second largest London airport when measured by air traffic movements (ATMs) (see Figure C.2 below). Figure C.2 shows that in 2012, Gatwick accounted for around 24 per cent of London's ATMs compared to the 48 per cent accounted for by Heathrow and the 13 per cent accounted for by Stansted.

<sup>30</sup> Source: CAA Airport Statistics.

**Figure C.2: Airports' shares of ATMs at London airports (2001 – 2012)**

Source: CAA airport statistics.

## Passenger airlines

C24 In 2012, the airport served 34.2 million passengers. The major passenger airlines operated at Gatwick and the airlines' share of traffic is outlined in Figure C.3 below.

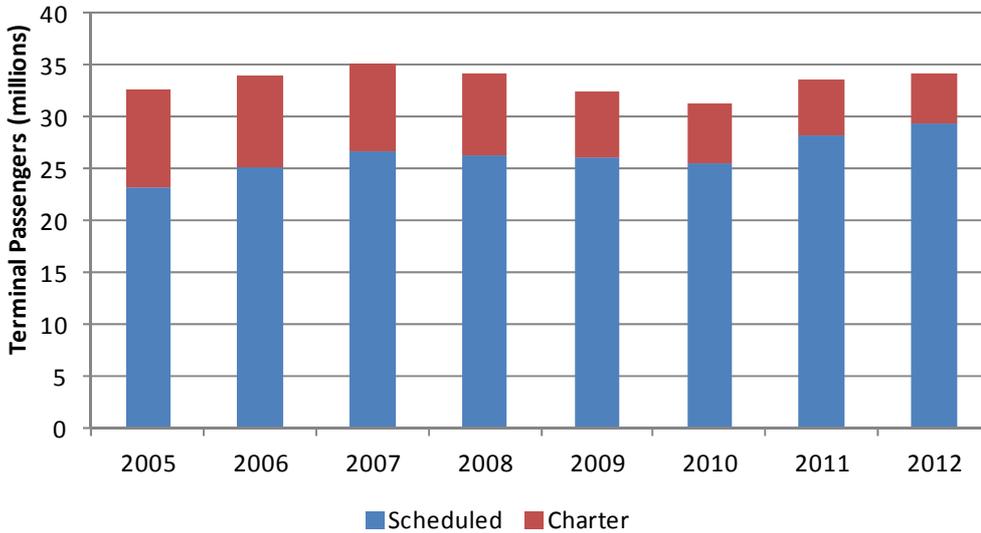
**Figure C.3: Number of passengers by major airlines (2012)**

<b>Airline</b>	<b>Terminal passengers (in thousands) in 2012</b>	<b>% of scheduled / charter traffic</b>
easyJet	13,556	46.1
British Airways	5,153	17.6
Monarch	1,681	5.7
VAA	1,398	4.8
Norwegian	1,278	4.4
Flybe	1,146	3.9
Ryanair	1,042	3.6
Other airlines	4,139	14.1
<b>All scheduled services</b>	<b>29,393</b>	<b>100.0</b>
Thomson	2,447	50.7
Thomas Cook	1,500	31.1
Monarch	495	10.2
Small Planet Airlines	76	1.6
Strategic Airlines (Luxembourg)	65	1.4
Aer Lingus	34	0.7
Strategic Airlines (France)	34	0.7
Other airlines	208	3.6
<b>All charter services</b>	<b>4,826</b>	<b>100.0</b>

Source: CAA airport statistics.

C25 Figure C.4 (below) also shows the number of passengers at Gatwick between 2005 and 2012 by type of flight.

**Figure C.4: Passenger numbers at Gatwick (2005 – 2012)**



Source: CAA airport statistics.

### Cargo airlines

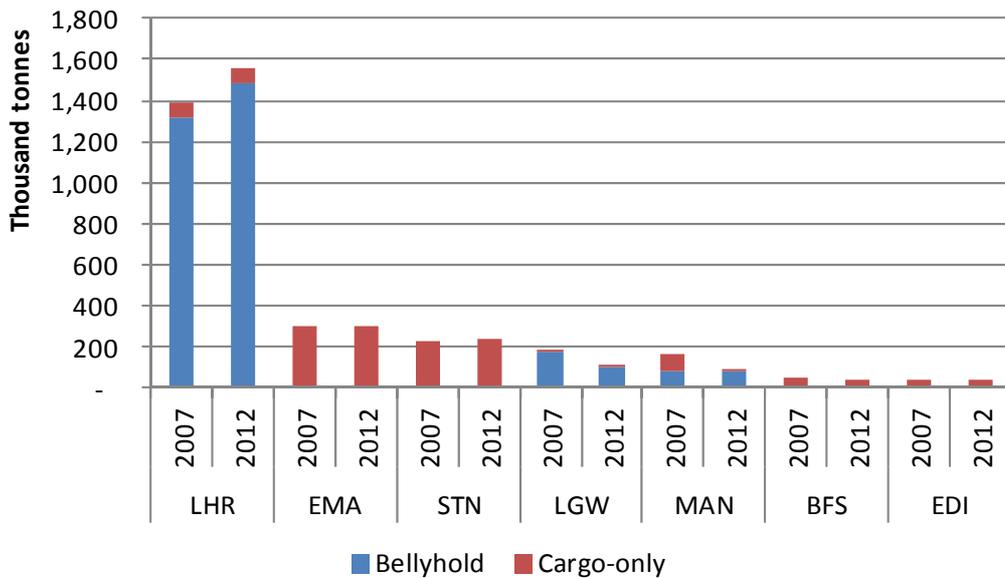
C26 The London Air Traffic Distribution Rules (TDRs) essentially prevent cargo and general aviation operations from Gatwick at peak times (extending to a considerable period of the day), subject to exemptions granted by the airport operator.

C27 In the provisional findings and provisional remedies of the CC’s March 2009 BAA airports market investigation final report, that the CC:

*considered that the TDRs restricted, prevented or distorted competition, by limiting large cargo aircraft wishing to serve the London area to Stansted, as other airports were either full, too far away, or had runways which were too short, thereby imposing additional costs on some operators who had as a result to split their operation between Stansted and Heathrow and/or Gatwick which they used for belly-hold cargo carried on passenger flights.*

- C28 According to CAA airport statistics, Gatwick is the fourth most important airport in the UK with 4 per cent of the volume of air cargo tonnage. This compares with Heathrow's 61 per cent, East Midlands' 12 per cent and Stansted's 9 per cent.<sup>31</sup>
- C29 However, there are no scheduled cargo-only airlines at Gatwick and that in 2012 almost all (99.9 per cent) of the cargo at the airport was carried as bellyhold, principally on long-haul, passenger flights. The relative dominance of bellyhold cargo at Gatwick is reflected in the small number of cargo-only ATMs annually (8 ATMs in 2012). Figure C.5 (below) shows bellyhold and cargo-only flights tonnage at selected airports.

**Figure C.5: Cargo tonnage by types of flights at major cargo airports (2007 - 2012)**



Source: CAA airport statistics.

Note: LHR – Heathrow, EMA – East Midlands, STN – Stansted, LGW – Gatwick, MAN – Manchester, BFS – Belfast International, EDI – Edinburgh.

- C30 With the exception of a small number of carriers who hold grandfather rights on operating cargo-only movements at Gatwick and Heathrow, the significant majority of cargo-only movements at London airports have been consistently flown from Stansted.

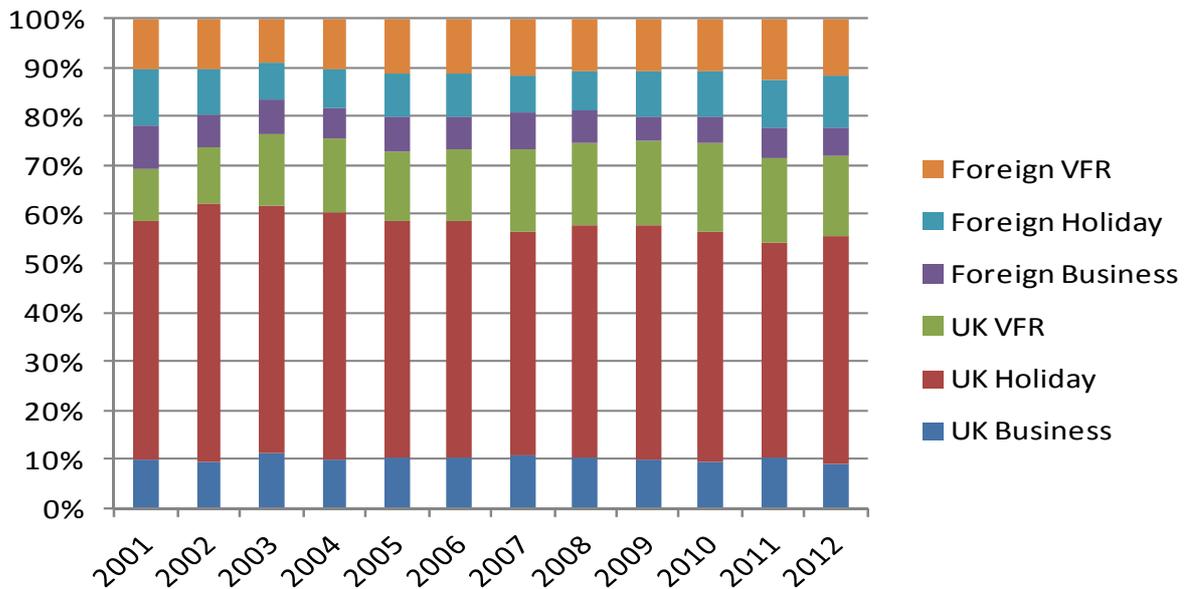
<sup>31</sup> Source: CAA airport statistics.

### Passenger types

C31 Gatwick caters to all passenger types. However, Gatwick has a smaller proportion of business traffic than Heathrow and a higher proportion of passengers travelling for holidays and to visit friends and relatives (VFR), as well as a higher proportion of UK resident passengers.

C32 In 2012, 84 per cent of the passengers at Gatwick used the airport for holidays and VFR, with business passengers accounting for only 16 per cent of all passengers; UK residents accounted for 72 per cent of passengers. Gatwick passenger types over 2001 – 2012 are outlined in Figure C.6 (below).

**Figure C.6: Gatwick passenger types (2001 – 2012)**



Source: CAA Passenger Survey.

### The business model operated at Gatwick

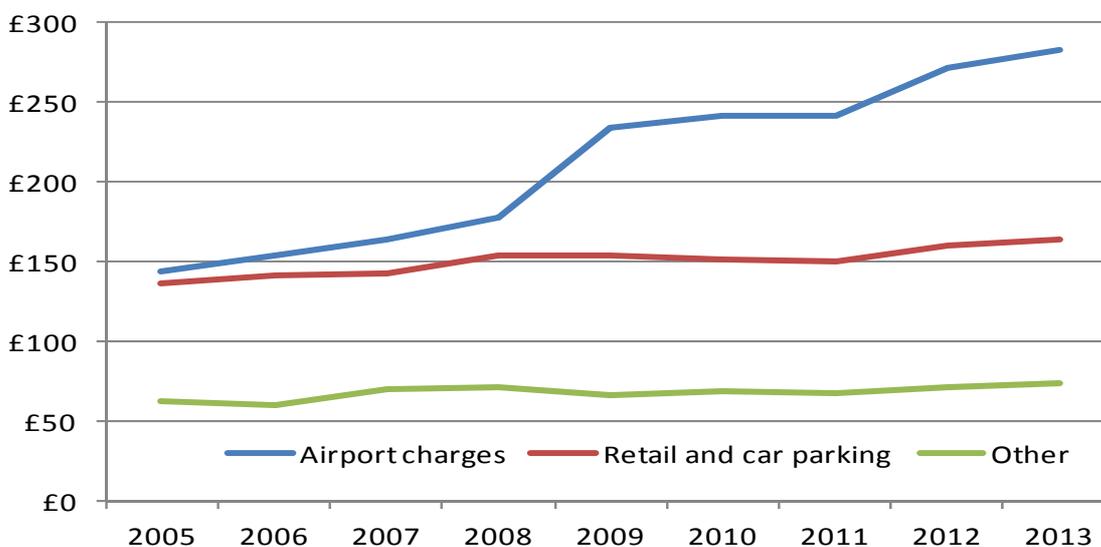
C33 In general, the airport operator at Gatwick generates revenue from three main sources:

- Airport charges, including charges on landing, charges on departing passengers and aircraft parking charges.
- Commercial income, such as revenue from retail concessions (and associated retail revenue sharing arrangements) and car parking.

- Other income, such as income from non-regulated aeronautical charges (i.e. revenue from charges levied on airlines for other services, including the servicing of aircraft and the use of airport property and fuel) and property income.

C34 Figure C.7 shows the various revenues that GAL has received over the last nine years.<sup>32</sup>

**Figure C.7: GAL's revenues (2005 – 2013, millions)**



Source: GAL, Statutory accounts.

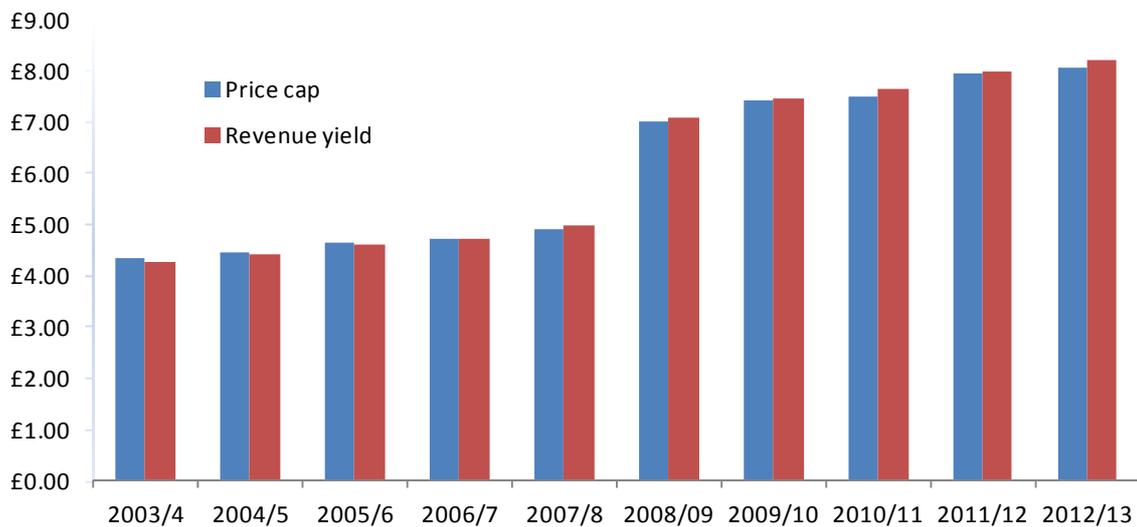
C35 As Gatwick is a designated airport whose operator is subject to price controls and the maximum average aeronautical charge per passenger that GAL is permitted to charge is based on the CAA's:

- Assessment of an efficient level of costs.
- View on the appropriate return of capital to be allowed.
- View on how the resulting price cap would facilitate competition between airports.

<sup>32</sup> This information has been taken from GAL's statutory accounts, which can be found at: <http://www.gatwickairport.com/business-community/investor/annual-reports/> (accessed 20 November 2013).

- C36 The CAA notes that:
  - Price controls are closely linked to the specific circumstances of the airport and the needs of the airlines and passengers at that airport.
  - Through the 'single till' approach to the regulation of airport charges, commercial revenues generated by the airport operator from the airport infrastructure reduce the aeronautical charges. This is in contrast to a 'dual till' approach in which the regulator would set separate price caps for aeronautical and other revenues.
- C37 The actual airport charges that GAL sets are published in its Conditions of Use, which are available on its website.<sup>33</sup>
- C38 However, the charges outlined in GAL's Conditions of Use may not represent the charges that are actually paid by an airline as airlines can enter into bilateral agreements which can result in lower charges being incurred.
- C39 Figure C.8 (below) illustrates the regulated price caps (or maximum airport charge) that were set at Gatwick as well as the revenue yields that GAL has achieved over the period 2003/04 – 2012/13.

**Figure C.8: GAL's price cap and revenue yields (2003/04 – 2011/12)**

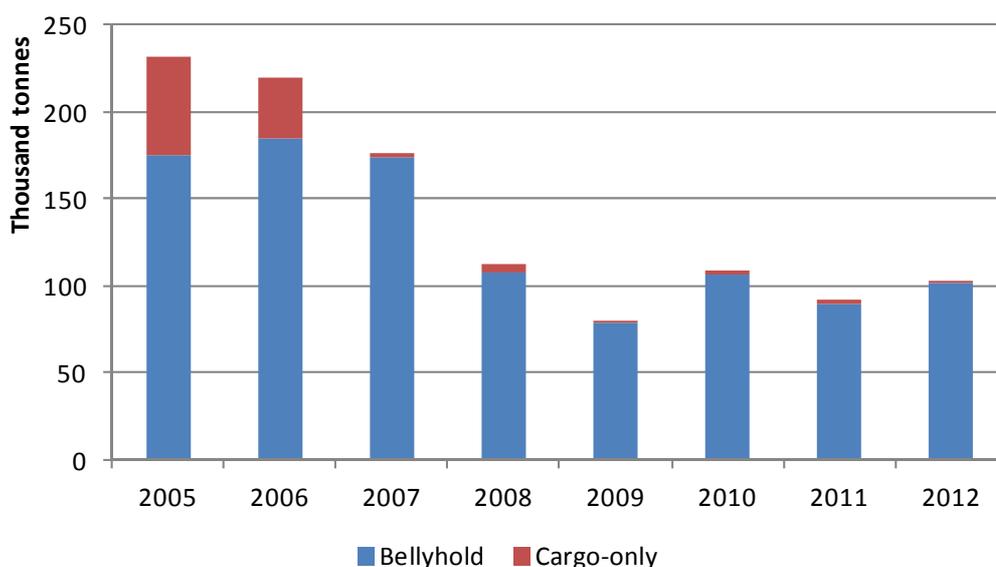


Source: CAA analysis of regulatory returns.

<sup>33</sup> The Conditions of Use can be found at: <http://www.gatwickairport.com/cou/> (accessed 20 May 2013).

- C40 Figure C.8 shows that since 2003/04 GAL has set the airport charges at Gatwick at or close to the regulated price cap.
- C41 GAL also generates revenue from its cargo operations. Figure C.9 (below) shows the cargo tonnage handled at Gatwick over the period 2005 – 2012, which as noted earlier, is largely bellyhold.

**Figure C.9: Cargo tonnage at Gatwick (2005 – 2012)**



Source: CAA airport statistics.

## Airport charges

- C42 As outlined earlier, the airport charges at Gatwick are comprised of three types – charges on landing, departing passengers and aircraft parking. Each of these charges is briefly explored below.

### Charges on landing

- C43 The charge on landing is based on the weight of the aircraft, including its contents, and noise – with aircraft failing to meet set noise standards subject to a higher charge. At Gatwick, a higher charge is also imposed on aircraft landing or taking off at the peak period (6:00 am to 11:59 am and 5:00 pm to 6:59 pm, 1 April to 31 October) compared to off peak

periods (1 November to 31 March)<sup>34</sup> For example, in 2013/14, an aircraft that weighed over 50 metric tonnes (and has a chapter 3 base noise certificate), would face landing and takeoff charges of:

- £885.51 during the peak period;
- £290.65 during the summer off peak period; and
- £0.00 during the winter off peak period.<sup>35</sup>

**Charges on departing passengers**

C44 The charge on a departing passenger is a charge that a passenger does not face directly as it is paid by the airline. The level of this charge is often not visible to the passenger as it is often bundled in the overall airfare.

C45 As of 2009, GAL applied three different departing passenger charges based on the destination (and therefore the infrastructure and services) that the passenger was going to use. A rebate on these charges was offered if the passenger left from a remote stand. Passenger charges at Gatwick remained unchanged for four years but increased by 9.5 per cent between 2012/13 and 2013/14 (see Figure C.10 below).

**Figure C.10: Charges on departing passengers (2009/10 – 2013/14)**

£ per passenger	Domestic	International	International (Republic of Ireland)	Remote stand rebate
2009/10	7.35	11.21	9.03	2.52
2010/11	7.35	11.21	9.03	2.52
2011/12	7.35	11.21	9.03	2.52
2012/13	7.35	11.21	9.03	2.52
2013/14	8.05	12.27	9.89	2.78

Source: GAL, Conditions of Use 2009/10 to 2012/13.

<sup>34</sup> This information is taken from GAL’s 2012 Conditions of Use. This document also highlights that the summer off peak period is ‘1 April to 31 October, all times other than those designated as peak’ and that winter is 1 November to March 31.

<sup>35</sup> The setting of a zero landing and takeoff charges for aircraft that meet the above listed criteria (and for other criteria) during the winter off peak period was introduced by GAL in 2011.

### Aircraft parking charges

C46 In general, aircraft parking charges are based on an aircraft's weight and the duration of stay. Figure C.11 (below) highlights the charges that GAL has imposed and shows that airport parking charges have remained static over the three years 2009/10 – 2011/12.

**Figure C.11: Airport parking charges 2009/10 – 2011/12**

	Charges per quarter hour or part thereof (£)	
	Fixed element	Per metric tonne
2009/10	4.82	0.075
2010/11	4.82	0.075
2011/12	4.82	0.075

Source: GAL, Conditions of Use

C47 However, in 2012/13, GAL modified its approach to airport parking charges and introduced a fixed charge per five minutes, which is set in reference to the weight of the aircraft, with all aircraft fitting into three categories.<sup>36</sup> In addition, a peak period multiplier of three is applicable.<sup>37</sup>

### Commercial income

C48 GAL also generates revenue from a number of commercial activities, including car parking, various (airside and landside) retail outlets and catering. The commercial revenue per passenger that GAL has achieved over the period 2005 – 2013 is illustrated in Figure C.12 (below).<sup>38</sup>

<sup>36</sup> The charge per five minutes for the different weight categories are: £2.413 for aircraft below 50 metric tonnes, £4.826 for aircraft greater than or equal to 50 metric tonnes but less than or equal to 200 metric tonnes and £7.238 for aircraft greater than 200 metric tonnes. Between 2012/13 and 2013/14, these charges increased by 9.4 per cent to £2.64, £5.28 and £7.92, respectively. Source: GAL, Conditions of Use 2012/13 and 2013/14.

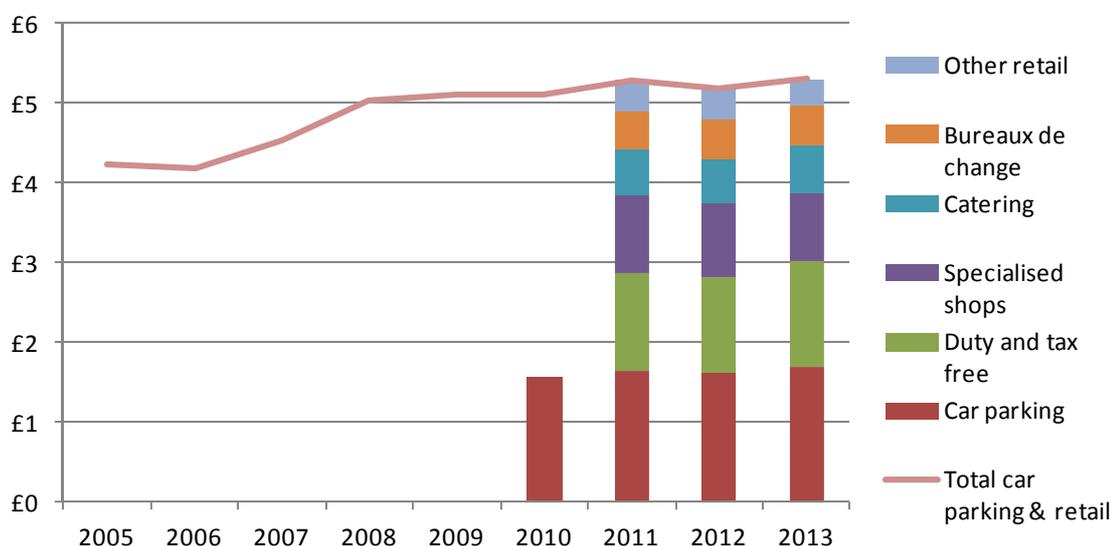
<sup>37</sup> GAL, Conditions of Use 2012/13 and 2013/14.

<sup>38</sup> When considering this figure it is important to note that the granularity of information contained within the accounts changed over time. While the granularity of information increased in 2010, the information that was available changed again in 2011. There was no information available

C49 Figure C.12 suggests that:

- Total retail revenue per passenger has, in general, increased over the period 2005 – 2013, with an increase of 25 per cent.
- Car park revenue is relatively stable, with the available data suggesting that GAL achieves, on average, £1.60 per passenger for parking.
- Non food shopping also appears to be relatively stable, although there is insufficient data to suggest anything more than this.

**Figure C.12: Commercial revenues per passenger (2005 – 2013, million)**



Source: GAL, Financial Statements.

C50 Another way to examine the sources of commercial revenue that GAL has generated can be seen by reference to Figure C.13 (below).

C51 Figure C.13 shows, on a percentage basis, the various sources of GAL's commercial revenue. In particular, this figure shows (among other things) that:

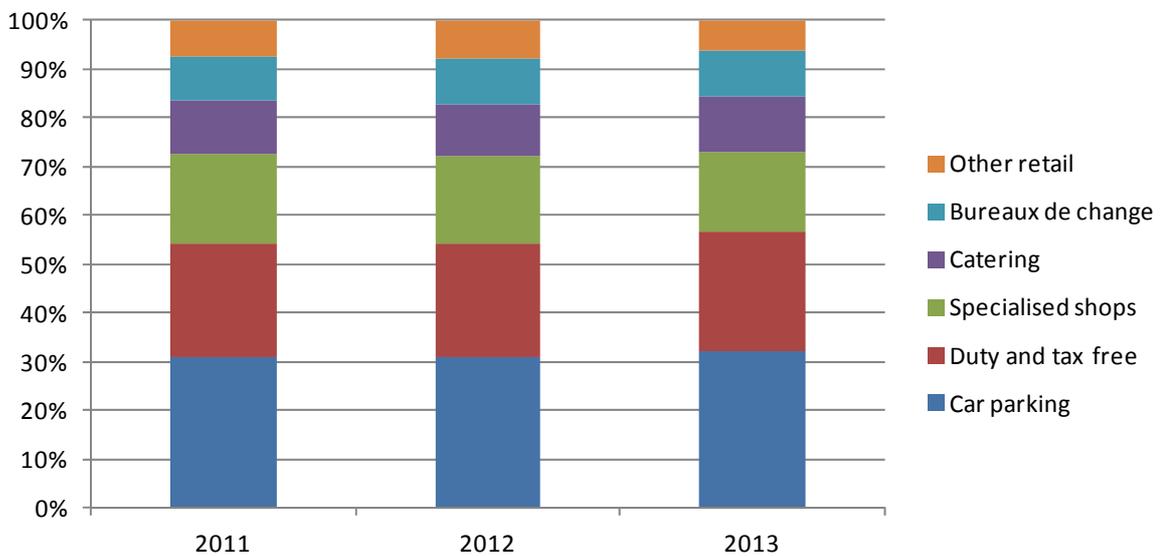
- Revenue from duty free, airside and specialised shops, and bureaux de change represent around 57 per cent of the commercial revenue currently generated by GAL.

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for the 2009 total retail figure and the CAA estimated a total retail figure for the year 2009 by taking a simple average of the total retail in 2008 and 2010.

- Non food shopping also appears to be relatively stable, although there is insufficient data to suggest anything more than this.
- Parking revenue represents around 32 per cent of the commercial revenue currently generated by GAL.
- Catering revenues represents around 11 per cent of the commercial revenue currently generated by GAL.

**Figure C.13: GAL's sources of commercial income (2011 – 2013)**



Source: GAL, Financial Statements

C52 However, given the limited data that is available on GAL's sources of commercial income there is limited scope to infer any specific trends and/or patterns at this time.<sup>39</sup> However, over time, as and if more data becomes available, the CAA expects to be able to draw more robust conclusions on this issue.

<sup>39</sup> GAL was sold in late 2009 and therefore there is a limited set of post sale accounts that it can draw on to examine these issues.