



Civil Aviation Authority

Airport market power assessments - Annex

Annex to the CAA's Initial Views - February 2012

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1. Introduction

1.1 This annex provides additional information for the following documents published in February 2012:

- Heathrow: Market power assessment - The CAA's Initial Views;
- Gatwick: Market power assessment - The CAA's Initial Views; and
- Stansted: Market power assessment - The CAA's Initial Views.

1.2 This additional information is structured as follows:

- Chapter 2 provides a full list of services provided by Heathrow to its various airport users. This list is also likely to be representative of the services provided by Gatwick and Stansted and other major UK airports;
- Chapter 3 illustrates the capacity constraints of the London airports;
- Chapter 4 discusses:
 - the role of passenger airline switching in assessing the competitive constraints faced by an airport;
 - the factors affecting passenger airlines' switching costs and their ability to switch away from an airport; and,
 - evidence of actual airline switching over time at Heathrow, Gatwick and Stansted through analysing the route churn of their respective largest airline(s).

2. Services provided at the airport

Services provided by Heathrow

2.1 This section provides a list of the services provided by Heathrow to its various users, as discussed in relation to the market in which Heathrow competes. This list is also likely to be applicable to Gatwick and Stansted, and other major UK airports.

Aeronautical services

2.2 Aircraft-related:

- Facilities for the landing, parking and taking off of aircraft.
- Fixed Electrical Ground Power
- Pre-conditioned air
- Water and sewerage
- Low temperature hot water
- Chilled water

2.3 Passenger-related services:

- Surface access
- Taxi facilities
- High-speed rail services and facilities
- Bus station facilities
- Forecourt set down facilities
- Security
- VIP services
- Electronic Passport Gates
- Passengers with Reduced Mobility Services

Non-aeronautical services

2.4 Airline-facing:

- Information Technology Services
- Telecommunications Services
- Utilities
- Baggage
- Check-in desks and Common use self-service (CUSS)
- Staff identity cards and vehicle apron passes
- Staff car parking

- 2.5 Passenger-facing:
- Flight Schedule Information Services
 - Car parking
- 2.6 Other (property)
- Industrial and commercial rental property
 - Airside licences
 - Airport waste services
 - Electricity
 - Gas
 - Domestic hot water
 - Cleaning

Services provided by other service providers

Retail

Aircraft-related services

- 2.7 Groundhandling
- Arrival service
 - Check-in service
 - Gate service
 - Irregularity services
 - Lost and found
 - Lounge services
 - Transfer service
 - Cargo and mail services
 - Central departure control
 - Consulting services
 - Crew services
 - Financial services
 - Flight Deck Operations
 - Manual development
 - Medical services
 - Ships library
 - Surface transportation
 - Systems development

- Ticket sales
- Purchasing services
- Station management
- Supervision
- Station inspection
- Training
- Ramp services
- Baggage handling
- Interior cleaning
- Cooling/heating
- De-icing/anti-icing
- Load control
- Loading/unloading
- Marshalling
- Moving of aircraft
- Parking
- Pre departure inspections
- Ramp fueling/de-fueling operations
- Ramp to flight deck communication
- Safety measures
- Sealing of aircraft
- Starting
- Transfer service
- Water & waste

2.8 Catering

2.9 Cleaning

2.10 Engineering/maintenance

Air traffic control/ANSP

2.11 NATS Services Limited are contracted to provide ANS directly to Heathrow Airport Limited who recharge airport users for the services on a per movement basis.

3. Capacity constraints

- 3.1 This chapter sets out evidence on the existence of capacity constraints at the main airports serving Greater London and the South East. This material is relevant to the assessment of the market power enjoyed by Heathrow, Gatwick and Stansted.

Context

- 3.2 Evidence on the balance between available capacity and demand can be relevant to airport market power assessments in a number of ways:
- Capacity constraints at an airport can constrain its ability to attract new airline business and reduce the adverse impact of airlines switching services away from the airport, which might reduce the airport's incentive to deliver appropriate price and service levels;
 - Capacity constraints at a potential competitor airport might reduce the strength of competitive constraints faced by the airport being assessed, as it might limit the ability of airlines to switch away from the airport; and,
 - If the airport were continuously under- or over-used (i.e. faced excess supply or excess demand) this might inform the understanding of whether the airport is pricing at a level that might be expected in a well-functioning market.
- 3.3 The CAA's *Guidance on the Assessment of Airport Market Power*¹ explained that scarce capacity can be a normal feature of a market and may not necessarily lead to market power and monopoly pricing. However, the underlying causes of scarce capacity might constitute significant barriers to entry and expansion. Where capacity constraints are caused by barriers to entry and/or expansion, they are likely to affect the strength of competitive constraints faced by an airport, and may increase the degree of market power held by incumbent airports, particularly where the barriers are non-transitory in nature.

Capacity constraints at the London airports

- 3.4 In general terms, it appears that capacity constraints at the four largest London airports principally arise by virtue of the availability of apron and runway capacity, rather than in the terminal capacity for passengers. This suggests a degree of flexibility at all of these airports as, even where runways are fully utilised, it could be possible to increase the number of passengers by increasing airline load factors or aircraft size.
- 3.5 Reflecting the focus of capacity constraints on apron and runway capacity, the following discussion focuses on the availability of slots.²

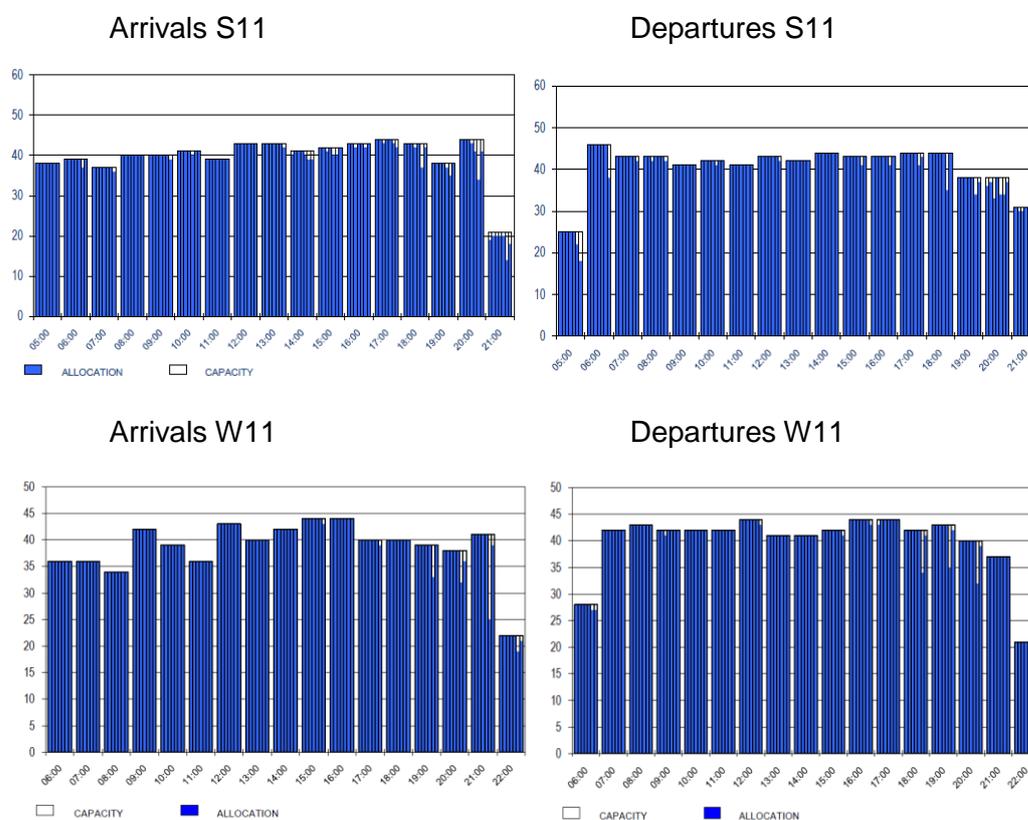
¹ CAA *Guidance on the Assessment of Airport Market Power* April 2011 (chapter 5)

² The Competition Commission undertook similar analysis in the context of the BAA airports market investigation. See Annex 4.2 of that report http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/545_4_2.pdf

Heathrow

- 3.6 Heathrow is operating at 98 per cent of its runway capacity, and has consistently done so over the past decade. As Figure 1 shows, there are very few available slot pairs for airline entry at Heathrow at any time of the day. Slots can be obtained either from the slot pool, to where all unused slots are returned according to the European Slot Regulations, or can be acquired or leased from other airlines currently holding slots at Heathrow. There are also additional barriers, for example there are night flight restrictions in place, and the London Air Traffic Distribution Rules stipulate that Heathrow (and Gatwick) cannot accommodate any new cargo-only or General Aviation flights in peak hours.³

Figure 1 Heathrow daily slot allocation, Summer and Winter 2011 – Runway movements per hour



Source: Airport Slot Coordination Ltd - Heathrow: Start of Season report Summer 2011 and Winter 2011

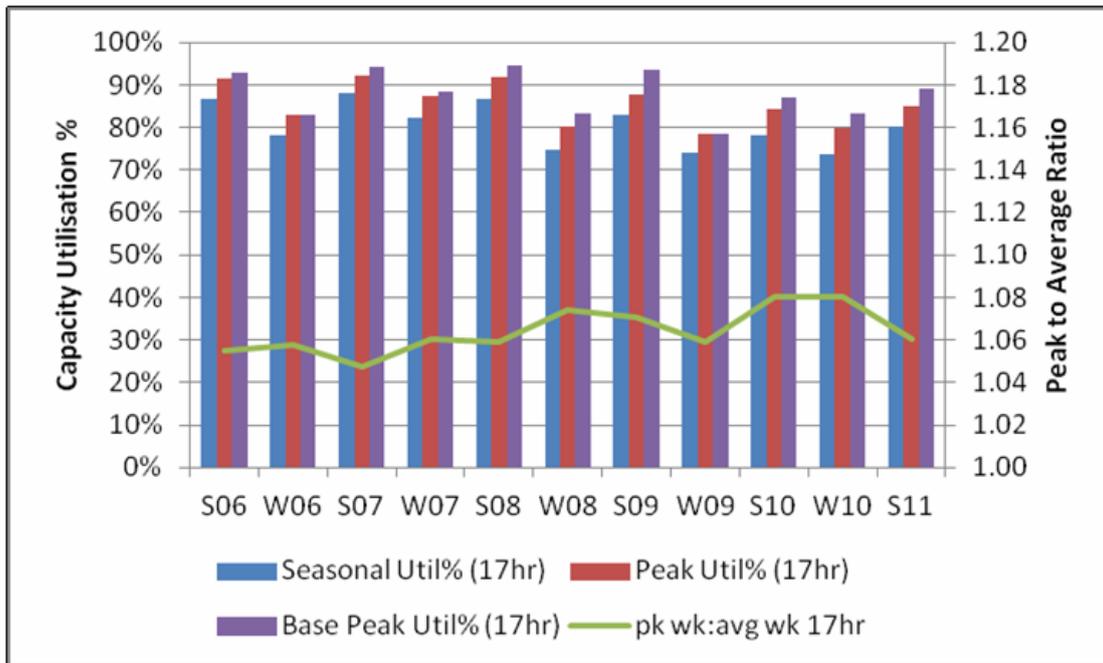
Gatwick

- 3.7 Figure 2 below shows summary statistics from ACL of capacity usage at Gatwick from Summer 2006 to Summer 2011 inclusive for the 17-hour period 0600 to 2259. The summary statistics are:

³ The London Air Traffic Distribution Rules (TDRs) essentially prevent cargo and general aviation operations from Heathrow and Gatwick at peak times (i.e. most of the day), subject to exemptions granted by the airport operator. Further details can be in Appendix 6.2 of the Competition Commission's BAA airport market investigation March 2009 http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/545_6_2.pdf

- Base(line) is the “historical” view of what flights are identified as being entitled to gain historical rights, subject to the 80/20 “Use It Or Lose It” rule;
- Peak week is the busiest week based on movements:
 - the last week of August for the Summer season; and
 - the first week of March for the Winter season;
- Utilisation is the number of slots allocated / capacity available; and
- The ratio of peak week to average week shows how much busier the peak is than the ‘shoulder’ periods.

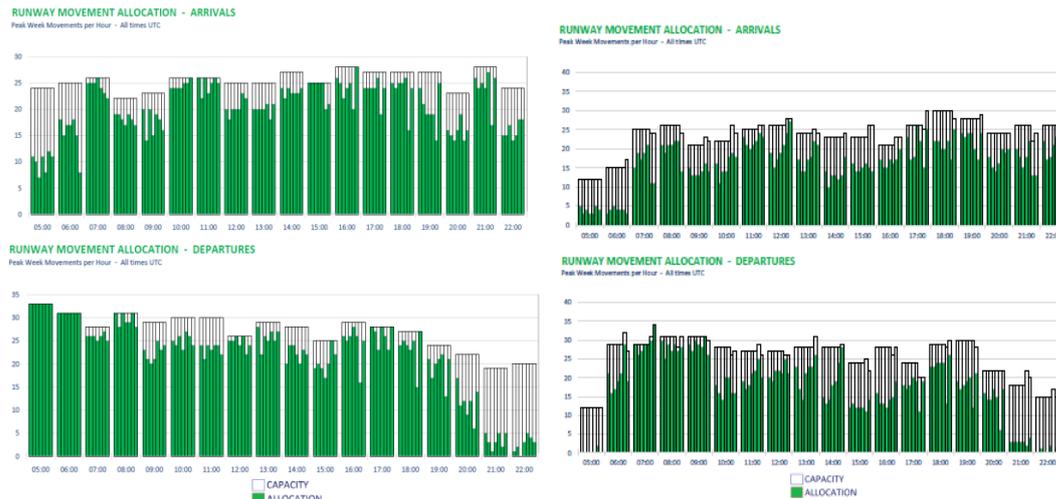
Figure 2 Gatwick capacity utilisation 2006 to 2011 (0600 – 2259)



Source: ACL, via Gatwick Airport

3.8 Figure 3 below shows the runway slot allocation across the day for the peak week, in summer and winter.

Figure 3 Gatwick daily slot allocation, Summer and Winter 2011 – Runway movements per hour



Source: ACL Ltd - Start of Season Report, LGW Winter 2011

3.9 These slot allocation graphs suggest that:

- the runway is nearing capacity – utilisation rates in summer are around 80 per cent and are in winter between 70 and 80 per cent. This is on a weekly basis capturing entire days, but there are higher utilisation peaks across individual days (which can go up, in individual time frames, to near 100 per cent), for example in the 5-7am time window for departures in the summer peak week;
- there is currently slightly more capacity available than in the past; and
- the difference between peak week and the average week is not particularly pronounced, which suggests a limited degree of seasonal “peakiness” within a season.

3.10 Gatwick told us that reasons for runway utilisation decreasing over time were the following:

- declared capacity increased over this time (from 50 to 53 runway movements in the peak hour⁴);
- demand dropped, for two main reasons:
 - the impact of Open Skies on a number of Gatwick’s transatlantic routes moving to Heathrow in summer 2008. This particularly affected demand for early morning arrivals and mid morning departures.
 - the impact of the economic recession in 2009/10 caused a general drop in demand, experienced across most UK airports. This effect on the airports was compounded by the suspension of the 80/20 “Use It Or Lose It” rule for slot utilisation by the EU, meaning incumbent airlines could keep slots empty, reducing

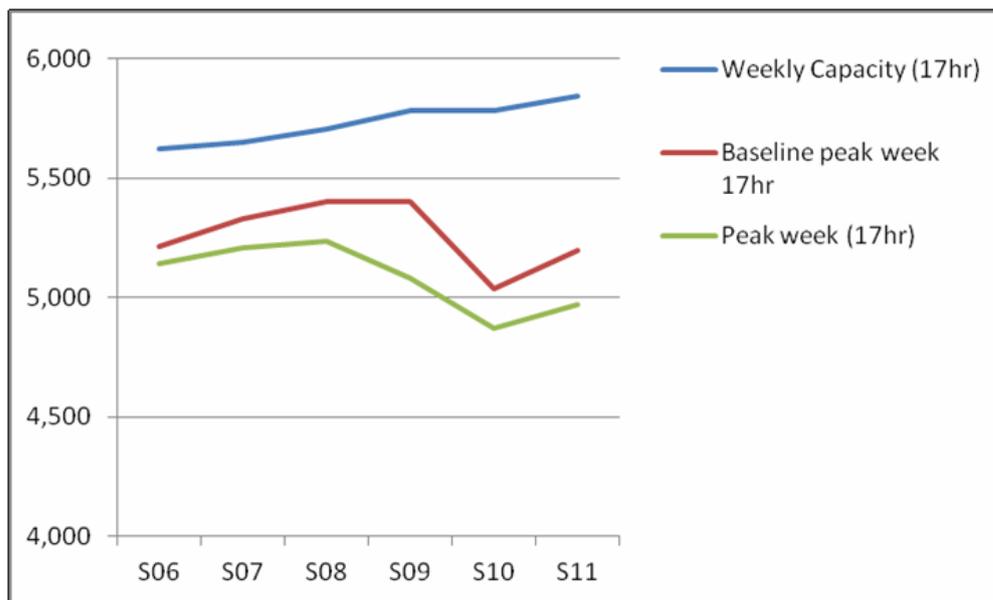
⁴ Gatwick Airport Limited *Airport competition: competing to grow and become London’s airport of choice* page 52 <http://www.caa.co.uk/docs/5/GatwickSubmissionOnCompetition05122011.pdf>

traffic at airports that couldn't offer the slots to other interested airlines;

- Capacity availability for based aircraft capacity is limited by the number of departures per hour in the first wave period and is the limiting factor to based aircraft growth;
- However, capacity does exist at times for long haul (excluding transatlantic); and
- Increased fragmentation of routes by day of week (i.e. more routes are served with less than a 7/7 frequency) has the effect of reducing utilisation, driven by low cost carriers replacing long haul full service scheduled services that tended to operate daily services. This makes it more difficult to accommodate new requests for daily flights at the same time across the week.

3.11 Figure 4 illustrates that available capacity at Gatwick has increased over recent years and demand has fallen, reducing utilisation, meaning that there is greater spare capacity than in previous years, however, there is now again an upward trend between the 2010 and 2011 Summer seasons.

Figure 4 Gatwick demand versus capacity 2006 to 2011



Source: Gatwick

3.12 While certain morning slots that are particularly scarce (see above) are more attractive than others for the commercially successful operation of certain services (particularly based low cost carriers and North Atlantic flights), Gatwick has told us that until now no airline negotiation has failed on the basis of unavailable slot capacity. The experience more generally has been that when airlines are not initially able to secure their optimal requirements they may take slots at other times, but then work across the following seasons to obtain their preferred times as slots churn or they have the opportunity to acquire slots in the market.

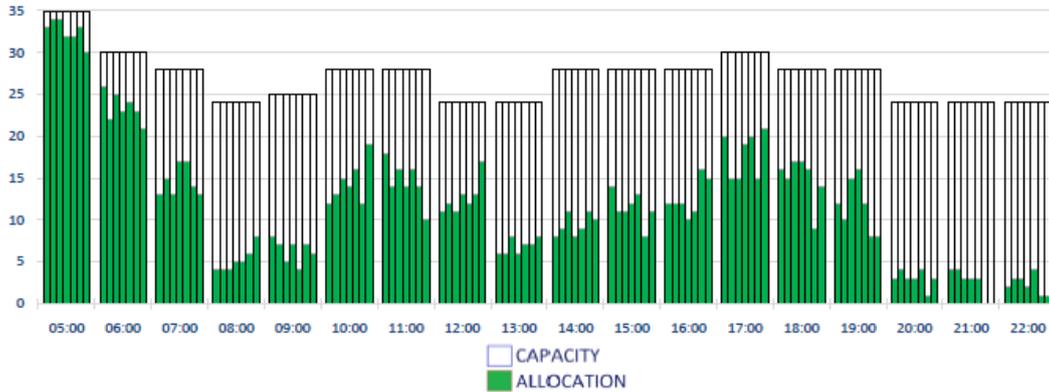
Stansted

- 3.13 Stansted is currently operating at approximately 55 per cent of its capacity. However, as Figure 5 below shows, Stansted has very limited spare capacity during a narrow peak period in the early morning, where there are limited prospects for additional capacity.

Figure 5 Stansted slot allocation, Summer 2011

RUNWAY MOVEMENT ALLOCATION - DEPARTURES

Peak Week Movements per Hour - All times UTC



Source: ACL UK Start of Season Report Summer 2011

- 3.14 As Stansted's capacity is configured to accommodate all types of aircraft, there would be scope for airlines and passengers, on the basis of capacity alone, to switch services from Gatwick to Stansted.

Luton

- 3.15 Luton currently operates at approximately 80 per cent of its capacity, but its runway infrastructure may be unsuitable for airlines operating certain wide-bodied aircraft. There would appear to be potential for significant capacity expansion from additional investment in its single runway, the provision of taxiway infrastructure and terminal facilities.⁵

Capacity availability at other airports

London City

- 3.16 London City airport is capacity constrained, exacerbated by its ability to expand being limited by its constrained geographical location (surrounded by a body of water) and its short runway. However, it currently has planning permission for 120,000 ATMs, which means that it would have substantial scope to expand operations in short-haul and, to a more limited extent, long-haul services.

Southend

- 3.17 Southend airport is relatively unconstrained in terms of capacity, albeit that there are operational constraints at present on the runway. However, the airport will be operating a more commercial service from April 2012, through

⁵ Gatwick Airport Limited *Airport competition: competing to grow and become London's airport of choice* page 52 <http://www.caa.co.uk/docs/5/GatwickSubmissionOnCompetition05122011.pdf>

easyJet basing several aircraft at the airport, developing a new terminal and improved surface access infrastructure. As a result, it is anticipated that Southend airport will serve 2mppa and operate 4 ATMs per hour.

4. The role of passenger airline switching

How customer switching can constrain prices

- 4.1 In a competitive market, customers switching or threatening to switch can constrain a firm's prices. If a firm tries to raise its price above those of its competitors, its customers will buy the product from a different supplier if they are able to do so. Where switching is possible and easy, therefore, firms will be unable to raise prices profitably above the competitive level, since any price rise will lead to a loss of volume purchased. This can discourage firms from raising prices or reducing service quality or investment in the first place.
- 4.2 Applying this theory to airport markets, this would imply that airports can be disciplined by passenger and/or airline decisions. This chapter considers airline switching⁶.
- 4.3 If airlines are able to switch easily from one airport to another, in light of an airport raising its prices, airlines would switch to another airport and the incumbent would lose the revenue from those airlines together with any ancillary revenue from the passengers they attracted.
- 4.4 An analysis of switching costs and switching is therefore an important part of a market power assessment since the easier it is for airlines to reduce their use of an airport, the less market power an airport is likely to have.
- 4.5 There are two ways to assess airline switching: considering the ability of an airline to switch - by analysing the magnitude of switching costs - and looking at past behaviour to see how much switching has actually occurred.

Forms of airline switching

- 4.6 Airline switching can take a number of forms – we will consider any way in which an airline can reduce its use of an airport as switching. An airline may reduce the frequency of flights for a city pair route at one city airport and increase it at another, or it may switch the route entirely from one airport to another in the same city. However, airlines may also switch between airports in different cities, for example taking capacity (either frequency from a route or an entire route) out of London and moving it, for example, to Manchester or Paris. In addition they can vary the size of aircraft on a route and/or switch future growth plans from one airport to another.
- 4.7 From the perspective of analysing the market power of an airport, there is no need to differentiate between the different types of switching. So long as an airline is able to switch, or credibly threaten to switch, away from an airport in response to a price rise in order to make that price rise unprofitable, the airport's pricing behaviour will be constrained, no matter where the airline is switching to.
- 4.8 However, switching costs are likely to vary according to the type of switching. For example, an airline may incur greater switching costs when switching to another city-pair route than switching between airports in the same city pair,

⁶ Passenger switching is considered both in the three assessment documents and in the working paper on catchment area analysis. These are available on the CAA website <http://www.caa.co.uk/default.aspx?catid=78&pagetype=90&pageid=12275>

as marketing costs may be higher. This potential variation of switching costs will affect the ability of airlines to switch in various ways and therefore constrain airport pricing.

- 4.9 Furthermore, an airline switching away to a neighbouring airport could have an impact on an airport's revenue, both from the airline switching away its operations and the potential resulting loss of passengers as they may follow the airline to its new airport in order to fly a particular route.

The ability to switch

- 4.10 The ability of airlines to switch between airports will depend on two factors: the costs involved in switching and the existence of appropriate alternative airports. In order for switching or the threat of switching to constrain an airport's prices, the cost of switching must be sufficiently low and appropriate alternative suppliers must exist.
- 4.11 Switching costs are any costs involved in switching all or part of a customer's demand from one supplier to another that would not be incurred by remaining with the current supplier. For airlines, these would include both the costs involved in the physical switch of airport, such as relocating equipment or staff, as well as the costs involved in marketing a new route or an increase in capacity on an existing route.

Types of switching costs

- 4.12 In its BAA Airports Market Investigation, the Competition Commission identified a number of airline switching costs. We have summarised its findings here, but the full paper can be found on its website.⁷
- In switching airports, an airline will face the costs of physical relocation, including moving any assets at the airport, plus staff relocation or redundancy and recruitment costs if the airports are far apart.
 - In addition, an airline may have to break long-term commitments, for example any contracts with an airport covering the development of new facilities.
 - There may be some loss of economies of scale if the airline splits a route between two airports, reducing capacity at the first airport, but not exiting entirely.
 - If by switching airports, an airline launches a new route previously unavailable from that airport, it will bear marketing costs and likely lower yields as the route develops. These costs are likely to be higher if the airports are far apart. However airports often offer marketing support for new routes which means that these costs are likely to be at least partially covered by the new airport.
 - There may also be a loss of yield due to switching to a less attractive location, for example the new airport's catchment area may not be as

⁷ Competition Commission, 'Working paper on cost to airlines of switching airports', *BAA airports market investigation*, 2007 http://www.competition-commission.org.uk/inquiries/ref2007/airports/pdf/working_paper_switching_costs.pdf

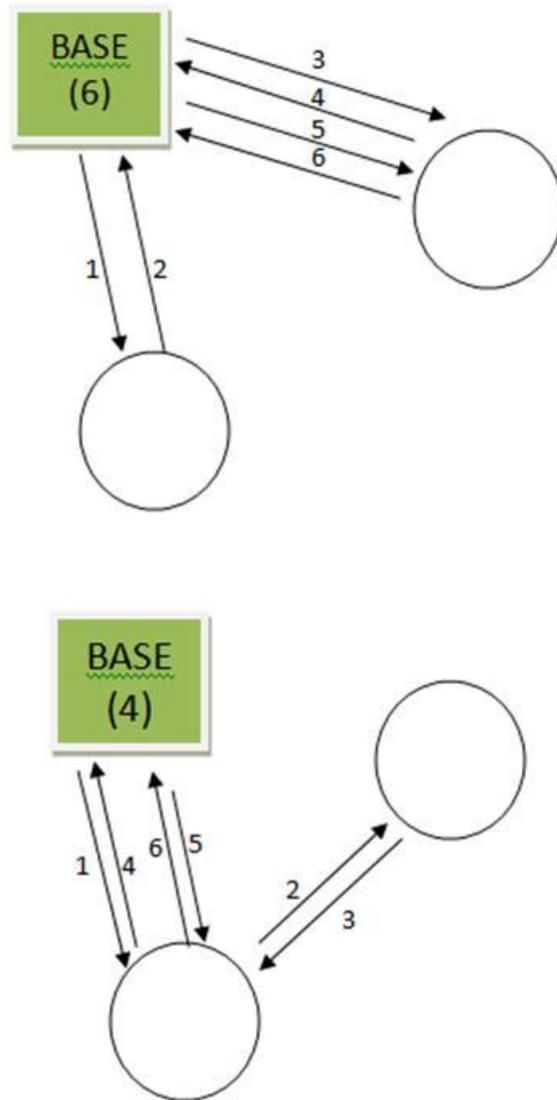
lucrative or there may be more competition from other airlines on the route in question.

How switching costs vary by airline type and route

- 4.13 The switching costs listed above are likely to vary by airline type, the extent of the switch (e.g. partial route or whole route⁸), the distance between the airports, and whether or not the aircraft is based at the airport.
- 4.14 Switching costs are likely to be lower for point-to-point and low cost airlines than network and full service airlines as they tend to invest less and have fewer staff based at airports. It is also likely to be harder for airlines relying on network flows to switch airports, as discussed below.
- 4.15 Furthermore, point-to-point airlines with a pan-European brand and aircraft and crew based at one airport may be able to switch some capacity away from the base by changing the routes operated, in a way that a network airline would not typically be able to. Figure 6 shows an example of how an airline could substitute two flights away from a base, while still maintaining the base at that airport.

⁸ Partial route switching could involve an airline reducing the frequency with which the route is served or the operation of the route with smaller aircraft. Whole route switching would involve ceasing operation of the route at the current airport.

Figure 6 Example of switching capacity away from base without reduction in based aircraft/crew



- 4.16 The larger the switch, the greater the switching costs are likely to be. For example, reducing the frequency of one route and increasing the frequency of an existing route at another airport is likely to have lower switching costs than withdrawing from a route entirely and commencing a new route at a new airport. Similarly, the greater the distance between the airports, the greater the costs are likely to be, both in terms of physical relocation and marketing costs, albeit that such an 'increase' in costs is most likely to be significant when comparing a switch to a neighbouring or near-neighbouring airport to one in a different country, or one serving a completely different passenger catchment. Switching costs are also likely to be higher when switching involves moving a based aircraft than when it involves moving a non-based aircraft, due to the additional staff relocation costs that are involved.

Other factors that affect an airline's ability to switch

Physical and logistical constraints

- 4.17 The availability and configuration of infrastructure at an airport will affect an airline's ability to switch to that airport. For example, certain aircraft will have particular runway requirements and sometimes particular terminal and parking facilities. In general, larger aircraft will have more specialist requirements that are less likely to be met by all airports. Since long-haul flights typically require larger aircraft, this is more likely to affect airlines offering long-haul flights.
- 4.18 In addition to these infrastructure requirements, there must also be sufficient slot capacity at alternative airports at a reasonable price in order for an airline to be able to switch between airports. Given the capacity restrictions at the London airports and the high capacity utilisation levels at Heathrow and Gatwick in particular, obtaining suitable slots at an affordable price for the airline can sometimes be a barrier to switching to another London airport.

Commercial constraints

Passenger demand

- 4.19 For an airline to switch airports, it must be commercially viable to do so. A number of different factors will affect the commercial viability of routes from a new airport.
- 4.20 Firstly, in order for an airline to switch airports, there must be sufficient passenger demand for the route to be profitable. This means that a sufficient number of passengers on an existing route must be willing to switch to the new airport and/or that there must be sufficient passenger demand at the alternative airport. We look in more detail at passenger switching in the CAA's working paper on *Passengers' airport preference*⁹.
- 4.21 An important determinant of passenger demand is surface access. The more accessible an airport is to the surrounding area, the more people it is able to serve. For example, an airport by a motorway with a high-speed rail link is likely to serve a wider area and draw more passengers than an airport without such links. We look in more detail at the catchment areas of the four major London airports in the CAA's working paper on *Catchment area analysis*¹⁰.
- 4.22 Another factor that will affect the commercial viability of an airline's new routes is the degree of potential competition it may face from other airlines at alternative airports. If the alternative airport already has more airlines serving the same, or similar, routes to those that the switching airline would offer, this may mean lower demand and prices, and lower revenue earned for the new routes.

⁹ CAA *Passengers' airport preferences – Results from the CAA Passenger Survey* November 2011
<http://www.caa.co.uk/docs/5/Passenger%20survey%20results%20-%20FINAL.pdf>

¹⁰ CAA *Catchment area analysis* October 2011
<http://www.caa.co.uk/docs/5/Catchment%20area%20analysis%20working%20paper%20-%20FINAL.pdf>

Network effects

- 4.23 As noted above, some airlines are reliant on the existence of networks at Heathrow for the viability of their business and profitability of some or all of their routes. Heathrow acts as a hub for a number of airlines and airline alliances. A large number of routes rely on the connecting passengers that they receive from other flights. For some of these airlines it would be very difficult, if not impossible, to switch away from Heathrow. The airlines that can switch are likely to consider other major European hubs as alternatives rather than other UK airports.
- 4.24 Airlines based at Heathrow, members of the three major airline alliances¹¹, and airlines with significant code share agreements with other airlines at Heathrow are most likely to depend on the connectivity and network effects available at Heathrow.
- 4.25 It was also put to the CAA that in order to attract business passengers, there must be sufficient flight frequency available to give these passengers additional flexibility. These frequencies need not necessarily be offered by the airline itself, but business passengers want the security of knowing that, if they miss a flight, there are alternatives available at the same airport later on. This will make it more difficult for airlines reliant on business passengers to switch away from Heathrow.

Cargo

- 4.26 Another factor affecting the profitability of an airline's operations from a particular airport is the extent of the cargo operations at an airport. Airlines that rely on cargo to make certain routes sustainable and/or profitable would need to find an alternative airport with similar cargo potential or have to make up any revenue lost on cargo in other ways.

Summary: factors affecting airline switching costs

- 4.27 Table 1 below illustrates the factors affecting the size of each type of switching cost for different airline business models. However, the table does not allow a comparison of the relative magnitudes of different switching costs. For example, it might be that "High" marketing costs might be lower than "Moderate" capital investment costs. We would welcome further evidence from airlines regarding the absolute levels of the different types of switching costs.

¹¹ These are oneworld, Star Alliance, and Sky Team.

Table 1 Factors affecting airline switching costs

Type of switching cost	Higher if...	Moderate if...	Lower if...
Capital investment costs at new airport	<p>Airline is based at LGW and moves significant share of operations to a new airport – e.g. might require new maintenance or cargo facilities</p> <p>Airline provides many own passenger-facing facilities, e.g. lounges</p>	<p>Airline moves significant share of operations to another existing base that require extensions to existing infrastructure</p> <p>Airline provides some own passenger-facing facilities</p>	<p>Airline moves small share of operations to another existing base</p> <p>Airline does not provide own passenger facing facilities</p>
Crew and ground staff relocation	<p>Airline has significant amount of own staff at airport</p> <p>Operations are moved to an airport further afield or cancelled</p>	<p>Airline has own staff at airport but operations are moved to neighbouring airport</p>	<p>Airline has few or none of its own staff at airport</p> <p>Operations are moved to neighbouring airport</p>
Marketing costs	<p>Operations are transferred to a route/airport that was previously unserved by the airline</p>	<p>Operations are transferred to a neighbouring airport (e.g. serve the same city)</p>	<p>Operations are decreased/cancelled/turned around (based aircraft now flies in from elsewhere)/ rescheduled into the off-peak</p>
Loss of route maturity and/or continuing yield loss	<p>Operations are transferred to a previously unserved route</p> <p>New routes are substantially less profitable than original routes</p>	<p>Operations are transferred to a neighbouring airport (e.g. serve the same city)</p> <p>New routes are somewhat less profitable than original routes</p>	<p>Frequency is varied, timing of service is changed (peak to off-peak), or the same service is operated from an airline based at the other airport</p> <p>New routes are only marginally less profitable than original routes</p>
Loss of economies of scale	<p>A small part of a large operation is moved to a new airport</p>	<p>A part of a large operation is moved to an existing airport with small operations</p>	<p>Only small operations at the airport</p>

Evidence of actual airline switching

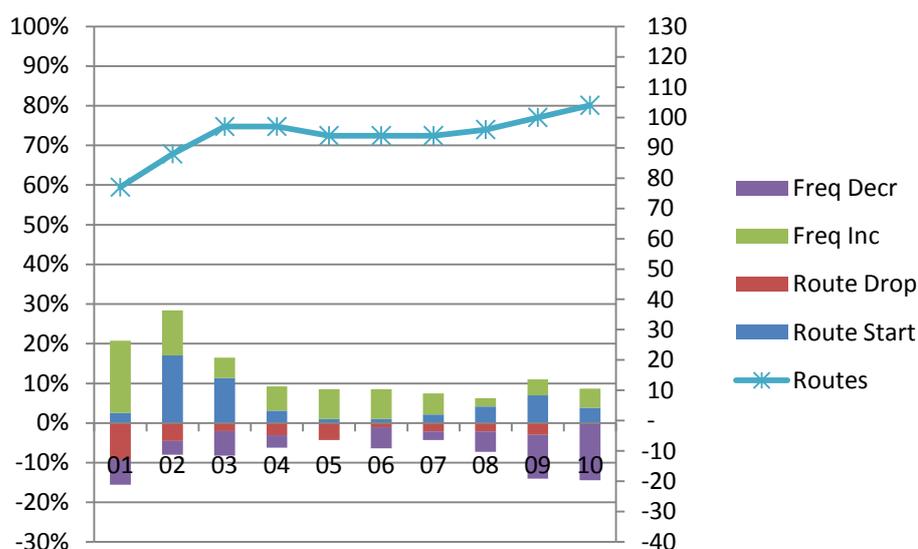
- 4.28 The previous section highlighted the various costs involved in airlines switching airports and how these vary by airline business model and type of switching. It also considered the factors that affect the ability of airlines to find appropriate alternatives.
- 4.29 One way to assess whether or not these switching costs are sufficiently high to prevent switching, or whether appropriate alternatives exist, is by looking at historical switching patterns.
- 4.30 However, caution must be taken when analysing evidence of switching. An absence of significant switching may imply that airlines are not able to switch, but it may also imply that competition between airports has led to competitive pricing, meaning that airlines only need to use the threat of switching to maintain competitive prices.
- 4.31 It is difficult to obtain data on airline switching, as airlines vary their schedules but do not always announce that a capacity reduction at one airport is linked to an increase at another airport. However, we do have data on route churn and the increases and decreases in frequencies by airlines at different airports. This gives us an idea of the degree of change in schedules of airlines at particular airports from year to year. If there is a high degree of change, this suggests that airlines would have scope to increase or decrease frequencies or routes. However, it does not tell us whether the airline is switching frequencies within an airport or if the airline is switching to or from another airport.
- 4.32 To complement the route churn analysis, we have also sought examples of switching.

Heathrow

Analysis of route churn

- 4.33 Figure 7 below shows that there has been relatively little change (mostly less than 10 per cent in either direction in the past six years) in British Airways' (BA) schedules at Heathrow, although there has been quite a significant drop in frequencies over the past two years.

Figure 7 Bar chart to show the routes started/dropped and frequency increases and decreases as a proportion of total number of routes for BA at Heathrow (left axis) and the total number of routes (right axis).



Examples of airline negotiations

4.34 Given the very limited capacity available at Heathrow, it is difficult for it to attract new airlines. As such, there is very limited evidence of airlines switching to Heathrow and, once an airline has secured a slot at Heathrow it is generally less likely to leave.

4.35 There is some evidence of hub competition in the media with British Airways threatening to withdraw frequencies from Heathrow and switching them to Madrid. For example, Willie Walsh was quoted in the FT saying that "Growth is not going to go away. Growth will just leave the UK and go to other parts of Europe. BA will be able to access that growth because our assets are mobile and we can focus on developing Madrid rather than . . . London."¹² However, so far we have seen no evidence of this type of switching.

Gatwick

Analysis of route churn

4.36 Figure 8 shows that easyJet has significantly increased its routes and frequencies at Gatwick and reduced very few of them. BA, on the other hand, has a relatively similar pattern of increases to that of its increases at Heathrow, but significantly higher decreases.

¹² FT, "BA threatens to favour Madrid over Heathrow for expansion", 11/07/2010,

Figure 8 Bar chart to show the routes started/dropped and frequency increases and decreases as a proportion of total number of routes for easyJet at Gatwick (left axis) and the total number of routes (right axis).

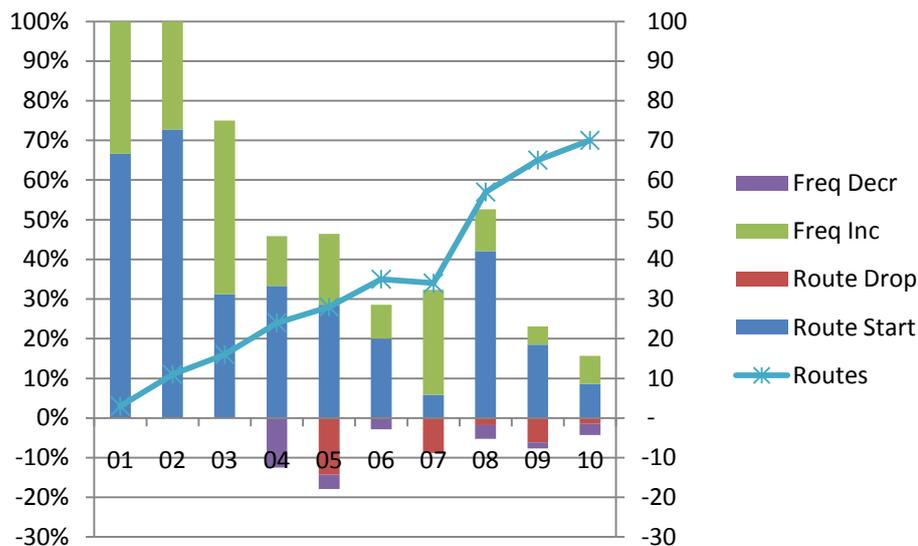
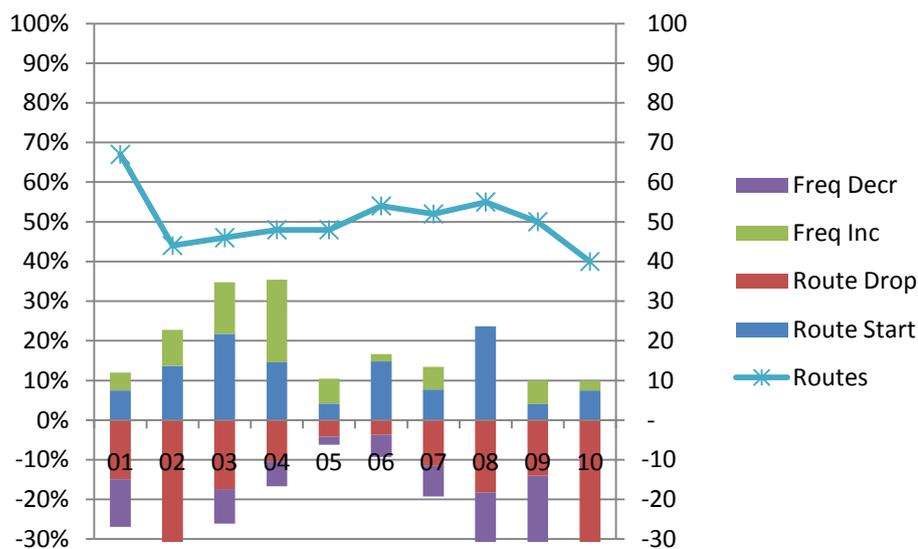


Figure 9 Bar chart to show the routes started/dropped and frequency increases and decreases as a proportion of total number of routes for BA at Gatwick (left axis) and the total number of routes (right axis).



Examples of airline negotiations

- 4.37 Gatwick has provided evidence of recent switches by airlines to the airport. There is limited evidence of airline negotiations where airlines have used the threat of going to another airport to secure better terms. However, we did see a recent example of Ryanair switching some of its flights to and from Ireland away from Gatwick.
- 4.38 Air Asia X switched to from Stansted to Gatwick “after seeing a 10 per cent decline in passengers connecting from low-cost carriers at Stansted” and

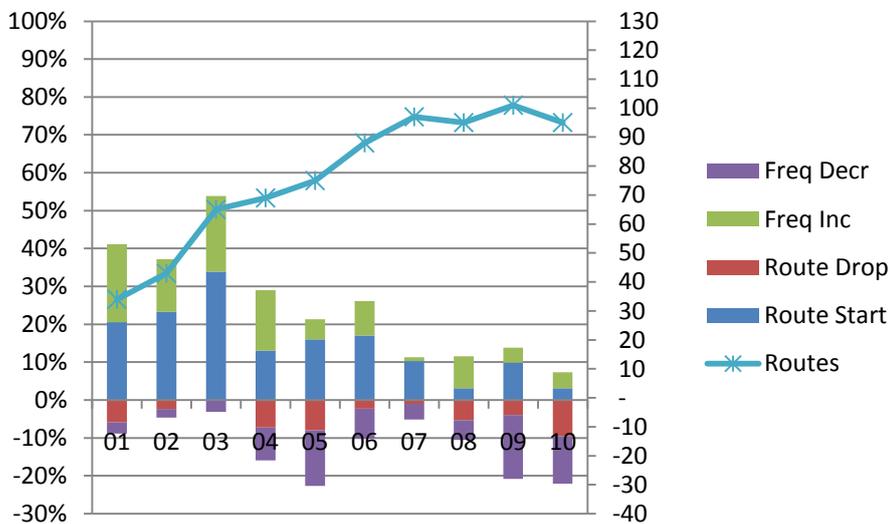
because of the “bigger catchment” and not because of airport charges¹³. Further, in its submission to the CAA, Gatwick has set out details of a number of examples of airlines switching to the airport from Stansted. However, there are only limited examples of switching away from Gatwick¹⁴.

Stansted

Analysis of route churn

4.39 Figure 10 below shows that Ryanair has increased and decreased routes and frequencies significantly over the past 10 years. In contrast, easyJet has made relatively fewer changes in its schedule in recent years, apart from a large decrease in 2009 as shown in Figure 11.

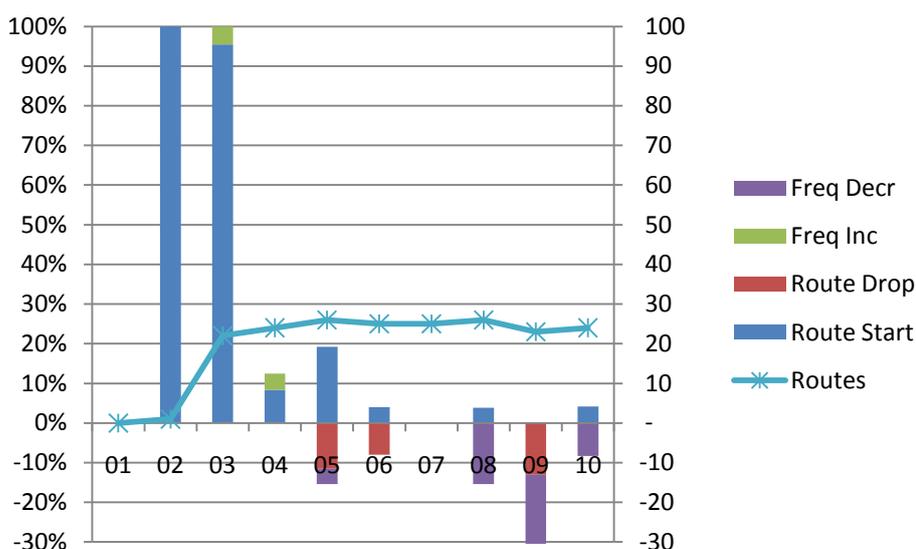
Figure 10 Bar chart to show the routes started/dropped and frequency increases and decreases as a proportion of total number of routes for Ryanair at Stansted (left axis) and the total number of routes (right axis).



¹³ <http://www.travelweekly.co.uk/Articles/2011/07/13/37629/traffic-decline-at-stansted-spurred-airasia-x-shift-to.html>

¹⁴ Gatwick Airport Limited *Airport competition: competing to grow and become London's airport of choice* page 43 <http://www.caa.co.uk/docs/5/GatwickSubmissionOnCompetition05122011.pdf>

Figure 11 Bar chart to show the routes started/dropped and frequency increases and decreases as a proportion of total number of routes for easyJet at Stansted (left axis) and the total number of routes (right axis).



Examples of airline negotiations

4.40 We have seen many examples in Ryanair press releases of it attributing its decision to switch capacity away from several airports to airport costs and taxes. For example, Ryanair announced in June 2010 that “Winter capacity at London Stansted will also be cut by 17 per cent from November. Ryanair will base 22 aircraft in Stansted this winter (24 last winter) with 135 fewer weekly frequencies and a loss of up to 1.5m passengers at Stansted between November and March 2011”.¹⁵

4.41 In addition, Figure 12 shows that Ryanair increased its capacity in Spain, Italy and Belgium whilst reducing capacity in the UK, Ireland, France and Germany.

Figure 12 Ryanair Seat change in Selected European Countries

Country	Weekly departures February 2010	Weekly departures February 2011	% change
Spain	1,368	1,725	+26.1%
Italy	1,421	1,486	+4.6%
United Kingdom	1,780	1,443	-18.9%
Germany	665	621	-6.6%
Ireland	717	615	-14.2%
France	417	332	-20.4%
Belgium	242	285	+17.8%

Source: OAG Max Online for w/c 1 February 2010 and w/c 7 February 2011, anna.aero

Source: anna.aero <http://www.anna.aero/2010/10/20/ryanair-re-allocates-winter-capacity/>

¹⁵ Ryanair Website, 29/10/2009, “Ryanair Cuts UK Winter Capacity by 16%” <http://www.ryanair.com/en/news/ryanair-cuts-uk-winter-capacity-by-16-percent>

