



M.A.G's further submission on airport capacity

August 2013

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Introduction

1. At the Board meeting on 3 July 2013, M.A.G was asked to submit further evidence to the CAA on the ability of airlines to switch services away from Stansted to other London airports, and the availability of capacity at these airports to enable airlines to switch.
2. This submission provides further examples of likely sources of spare capacity at London airports over the period to 2019. In concluding its work on market power, the CAA will need to assess whether its 'minded to' view that there is insufficient capacity at London's airports to allow airlines to switch between two and four aircraft away from Stansted is sustainable in light of this evidence and the other evidence that is already available to the CAA.
3. In this respect, we would note that it does not fall to M.A.G to prove that there is sufficient capacity for airlines to switch away from Stansted; rather, the CAA needs to be confident that it could substantiate, if necessary, its view that there is not enough capacity at other airports to enable airlines to switch services away from Stansted.
4. As the CAA knows, M.A.G's view is that airlines have a wide range of potential alternative uses for aircraft that are based at Stansted, including redeployment to other airports across the UK and Europe and grounding these aircraft in off-peak periods. Taken together, these alternatives create a strong and meaningful constraint on Stansted's profitability and ability to raise prices.
5. In our view, airlines could (and would) withdraw enough capacity from Stansted in response to such a price rise to render it unprofitable. This is particularly the case given the availability of substantial spare capacity at Stansted (peak and off-peak) and the limited investment required to handle additional passengers and aircraft movements over the next five to ten years.

Gatwick

New peak hour runway slots

6. There is evidence to show that Gatwick's runway capacity will increase over the period to 2019, which will provide opportunities for airlines to switch services away from Stansted to Gatwick.
7. In new ownership, one of Gatwick's priorities has been to increase the capacity of the runway during peak hours. The airport's new management team has already succeeded in increasing the peak runway capacity from around 50 movements per hour to 53 movements per hour.¹
8. Under the "A-CDM55" performance improvement programme, Gatwick is targeting an increase in the number of scheduled movements in peak hours to 55. This would provide at least two new slots per hour during peak hours compared to Summer 2013.² These new peak-hour slots could be used by airlines to switch based aircraft away from Stansted, and enable multiple rotations during the rest of the day (given the plentiful availability of capacity in off-peak hours).

¹ <http://www.acl-uk.org/UserFiles/File/LGW%20S13%20Start%20of%20Season%20Report.pdf>

² http://www.gatwickairport.com/Documents/business_and_community/R2/Gatwick%20Airport%20-%20Short%20and%20Medium%20Term%20Options%20Paper%20-%2016%20May%2013.pdf

Ability of airlines to build slot portfolios ‘organically’

9. Evidence shows how a range of airlines have been able to develop sizeable slot portfolios at Gatwick in recent years, despite the general perception that Gatwick is capacity constrained. Notable examples include:
 - easyJet: increased from 7% to 41% of Summer season slots between 2002 and 2013;
 - Ryanair: increased from 2% to 4% of Summer season slots between 2006 and 2011;
 - Norwegian: increased from 2% to 6% of Summer season slots between 2009 and 2013;
 - Aer Lingus: has held 4% of Summer season slots since 2009; and
 - Flybe: increased from 3% to 9% of Summer season slots between 2003 and 2010.
10. Norwegian Airlines provides a direct example of an airline previously operating at Stansted that has managed to build up a slot portfolio at Gatwick – in Norwegian Airlines’ case now equating to 6% of runway slots during the most recent summer season. In Summer 2013, Norwegian Airlines has three aircraft based at Gatwick,³ and operates 151 departures per week to 25 destinations across Europe.⁴
11. In the context of the CAA’s analysis of the opportunities for airlines to switch away from Stansted, Norwegian Airlines’ operation of three based aircraft from Gatwick is highly significant for a number of reasons:
 - it shows that an airline has been able to obtain enough slots at peak times to be able to base aircraft at Gatwick, and operate multiple rotations from the airport during the rest of the day;
 - the number of aircraft Norwegian Airlines now bases at Gatwick is, in itself, within the range of aircraft that the CAA has assessed would need to switch from Stansted to make a 5-10% price rise unprofitable;
 - Norwegian Airlines operated at Stansted until 2009 before switching services to Gatwick.
12. The ability of airlines to build up their slot holdings at Gatwick shows that it would be possible for an airline to switch services away from Stansted. Even if it were not possible to make a wholesale switch of services to Gatwick immediately, the evidence clearly shows that it is possible for an airline to accumulate sufficient slots over a period of time (within the timeframe covered by the CAA’s analysis, i.e. six years) to operate three based aircraft from Gatwick.

Ability of airlines to purchase slot portfolios

13. Although the evidence shows that airlines can accumulate workable slot holdings at Gatwick through the slot allocation system operated by ACL, there are numerous examples of airlines at Gatwick acquiring slots directly from other airlines.

³ <http://www.mediacentre.gatwickairport.com/News/Norwegian-Air-Shuttle-to-establish-a-new-London-base-at-Gatwick-7a3.aspx>

⁴ <http://www.anna.aero/2013/04/10/norwegian-opens-london-gatwick-base/#>

14. A recent example of this is easyJet's acquisition of Flybe's slot portfolio at Gatwick, amounting to some 25 services per day. Ryanair also expressed a clear interest in acquiring these slots to develop their operation at Gatwick
15. Although easyJet has not indicated that it intends to use the Flybe slots to enable services to be switched away from Stansted, it would have been open to easyJet to use them for this purpose had it wished to. Equally, the slots could have been used by Ryanair to support a switch of services away from Stansted.

Additional capacity from GAL's restructuring of charges

16. As the CAA knows from its handling of Flybe's S.41 complaint about the structure of airport charges at Gatwick, the airport's management is seeking to improve the utilisation of runway capacity by incentivising airlines to operate larger aircraft. Ultimately, Gatwick's charges policy is designed to create additional passenger capacity, at least over the period to 2019.
17. Although no aircraft would need to switch between Stansted and Gatwick, the additional passenger capacity at Gatwick will create an additional opportunity for airlines to meet passenger demand on services from that airport, rather than from Stansted. Therefore, services at Stansted could be reduced in response to additional passenger capacity at Gatwick.

Away-based aircraft

18. The evidence available on the availability of off-peak capacity at Gatwick shows that there are plentiful opportunities for airlines to serve the London market by switching services out of Stansted, and serving the same routes by basing aircraft away from London and flying into Gatwick (and/or other London airports) at off-peak times.

Luton

New peak hour runway slots

19. There is good evidence available to the CAA to show that Luton is likely to increase its peak hour capacity substantially during the period covered by the market power assessment, and offer the potential for airlines to switch services away from Stansted.
20. Luton published a revised masterplan in September 2012 setting out its plans to develop additional taxiway and aircraft parking facilities (amongst other things) to enable the airport to grow to around 18 mppa over the next ten to fifteen years.⁵
21. It is expected that these airside enhancements will enable the airport to increase the scheduling limits at peak times by six movements per hour:

"The additional capacity will allow better use to be made of the runway. The proposed new and extended taxiways will facilitate easier access to and egress from the runway. This plan increases the peak movement rate to 40 compared to 34 in summer 2011." (page 32)
22. The airport operator has recently submitted a planning application for the enhancements set out in the masterplan. A decision on the planning application is expected shortly. Following planning consent, it

⁵ www.london-luton.co.uk/.../London%20Luton%20Airport%20Revised%...

is reasonable to expect the runway and taxiway works to be completed within one to two years, i.e. the new capacity will be available from around 2015 onwards.

23. Six additional peak hour runway slots will provide significant opportunities for airlines to switch services away from Stansted. With six additional movements possible in each of Luton's peak hours, supported by fifteen new aircraft stands, it is likely that Luton will be in position to accommodate between ten to fifteen new based aircraft from 2015 onwards.
24. All of the additional based aircraft at Luton could be sourced from aircraft that are currently operating from Stansted.

Airline support for Luton development

25. The development of additional capacity is supported by airlines operating at Luton (and Stansted):

'Ryanair is very supportive of LLAOL's plans, which seem to us capable of providing useful new capacity in the London market at a sensible and efficient cost'

Michael O'Leary, Chief Executive, Ryanair

New ownership

26. On 1 August 2013, TBI (a company owned by abertis and Aena Internacional) agreed to sell the company holding the concession for London Luton Airport to a consortium formed by Aena and AXA Private Equity. The new owners have made clear their intention to grow Luton's traffic volumes and expand the facilities.
27. For example, Aena's press release announcing the deal talks of Luton having "high growth potential" with the ability to double passenger numbers. In addition, following the announcement of the deal Aena executive chairman Jose Manuel Vargas seem to indicate that the new owners would seek to implement the expansion proposals set out in the masterplan:

"We aim to substantially build up Luton in consultation with all its stakeholders."

Southend

Ability to take more services from Stansted

28. Over £100 million has been invested by the Stobart Group since it acquired the airport in 2008. The airport is seeking to attract airlines to add new services, largely as a direct alternative to operations from Stansted. The airport is looking to double its throughput over the period to 2020, ultimately handling around 2 million passengers a year by around 2020. In June 2013, Southend opened a new terminal extension and five new aircraft stands.
29. easyJet began operating three based aircraft from Southend from summer 2012. In the first year of operation, easyJet flew more than 700,000 passengers from Southend. The aircraft used for the Southend operation were sourced directly from easyJet's Stansted operation, and consequently led to a corresponding decrease in easyJet services from Stansted. From June 2013, easyJet added a fourth based aircraft to Southend. easyJet have made clear that their long-term strategy for Southend is to expand its network to generate additional competition.

30. Southend has the capacity to accommodate at least another four to five based aircraft, all of which could be switched to the airport from Stansted.

London City

Expansion to 8 mppa by 2030

31. In 2011 London City Airport handled 70,000 scheduled aircraft movements and 3 million passengers. By 2021 this is expected to increase to just over 100,000 scheduled aircraft movements and 6 million passengers.
32. London City Airport's masterplan shows how the airport is capable of growing to handle 8 million passengers per annum by 2030, with the need for a second runway or significant expansion of the airport boundaries. In 2009, the airport received planning permission to increase the number of flights it handles from 70,000 per annum to 120,000 per annum.
33. In July 2012, the airport submitted a planning application for works to improve its existing infrastructure, including seven new aircraft parking stands, an enhanced taxiway system, an extended terminal building, a new passenger pier and associated works on a platform over the adjacent docks.⁶ These works will enable the airport to handle the new generation of larger aircraft that are expected to start operating in 2016.
34. London City will have capacity to accommodate significant growth over the period covered by the market power assessment. Although, there are limitations on the types of aircraft that can use London City, the airport will represent a close substitute for many airlines that might also consider starting services from Stansted over the next five to ten years.
35. This view is reinforced by recent experience where an airline operating at London City (Skyworks) planned to transfer its operations to Stansted, only to cancel its plans at the last minute. In addition, Flybe have also made clear in commercial negotiations with M.A.G that London City is an effective substitute for Stansted.

Conclusion

36. From the examples cited above, it is clear that there is good evidence to show that over the next five to ten years other London airports will have capacity available to enable airlines to switch services away from Stansted in response to a price rise.
37. The analysis demonstrates that airlines' ability to switch away from Stansted does not rely on there being spare runway capacity today; the ability to switch away from Stansted can come in a variety of forms:
 - the ability of airports to increase their capacity in the short to medium term as Gatwick, Luton, Southend and London City are planning to do;

⁶ <http://www.londoncityairport.com/aboutandcorporate/page/cadp>

- the ability of airlines to accumulate slots over time, even where there appears to be scarce capacity at an airport, both by acquiring slots and taking slots from the pool as they become available; and
- the ability of airlines to switch passenger capacity from one airport to another without necessarily increasing the number of services operated at the target airport.

38. Taken together, these factors make it possible for airlines to switch (or threaten to switch) services away from Stansted to other London airports over the period covered by the market power assessment, in a way that will constrain Stansted's profitability and ability to increase its prices.