APPENDIX C

The business of Heathrow Airport Limited

C1 This appendix provides an overview of the current ownership and history of Heathrow and the business of Heathrow Airport Limited (HAL). In particular, this appendix examines the:

- services HAL provides to different users; and
- sources of HAL's revenue.

The ownership of Heathrow

C2 Heathrow is owned by Heathrow Airport Holdings Limited (previously BAA), which is privately managed on behalf of its shareholders, with the major shareholders currently being:

- FGP Topco Limited, a consortium owned and led by the infrastructure specialist Ferrovial S.A.– 33.6 per cent;
- Qatar Holding LLC – 20.0 per cent;
- Caisse de dépôt et placement du Québec –13.3 per cent;
- the Government of Singapore Investment Corporation – 11.9 per cent;
- Alinda Capital Partners –11.2 per cent; and
- China Investment Corporation – 10 per cent.[1]

The development of Heathrow[2]

C3 Heathrow has two parallel east-west runways and is located around 14 miles west of London.[3] It sits on a site that covers 1,227 hectares.

C4 The airport started operations in 1930 as a private airport to assemble and test aircraft.

1 HAL, Company Information, http://www.heathrowairport.com/about-us/company-news-and-information/company-information (accessed 30 October 2013).

2 HAL, http://www.heathrowairport.com/about-us/facts-and-figures/heathrow's-history (accessed 30 October 2012).

3 Liaison Group of UK Airport consultative committees, http://www.ukaccs.info/profiles.htm#LHR (accessed 20 December 2012).

C5 In 1944, as part of the World War Two war effort, it was requisitioned by the Air Ministry for development into a Royal Air Force transport base.

C6 On 1 January 1946, after the war ended, the airport was handed over to the Air Ministry as London's new civil airport.

C7 In the 1950s, a new permanent building was built at the airport to replace the existing (ex-military) passenger terminals.

C8 In the years that followed, various other developments occurred.

- By 1961, the old terminal on the north side of the airport had closed and airlines operated either from the Europa terminal (later renamed Terminal 2) or the Oceanic terminal (now Terminal 3).
- In 1966, the British Airports Authority (later BAA) was created the airport was named Heathrow.
- In 1969, Terminal 1 was opened and in 1977 the London Underground link at the airport was opened.
- In 1986, Terminal 4 was opened[4] and in 2009 it underwent a major refurbishment.
- In 2008, Terminal 5 was opened.
- In 2010, demolition work on Terminal 2 started.

C9 In 2007, the Competition Commission (CC) launched an investigation into BAA's ownership of airports within the UK.[5]

C10 In 2009, the CC concluded its investigation and found that BAA's common ownership of airports in lowland Scotland and south-east England gave rise to adverse effects on competition.[6] The CC concluded that a package of remedies that would be effective in remedying this included the divestiture of both Stansted and Gatwick to different purchasers and the divestiture of either Edinburgh or Glasgow airport.[7]

4 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/history.html (accessed 20 December 2012).

5 CC, http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/inquiry/ref2007/airports/pdf/core_terms_of_reference.pdf (accessed 6 March 2013).

6 CC, http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2009/fulltext/545.pdf , (accessed 6 March 2013).

7 CC, http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2009/fulltext/545.pdf (accessed 6 March 2013).

C11 In 2010, following a change in government, the government indicated that it would not permit further runway expansion at the designated airports until its new aviation strategy had been developed.[8] This meant that the development of a third runway (which had been approved in 2009[9]) at the airport was stopped.[10]

Heathrow's facilities

C12 This section describes the scale and disposition of some of the current facilities at Heathrow that fall within the airport area, as defined in section 66 and 67 of the Civil Aviation Act 2012 (the CA Act).[11]

The runways

C13 Heathrow has two parallel runways. The northern runway has a length of 3,902 metres by 50 metres wide and the southern runway has a length of 3,658 metres by 45 metres wide.[12]

The terminals

C14 Heathrow has five terminals:[13]

- Terminal 1 is home to a large number of Heathrow's domestic flights, as well as some European and long-haul destinations.[14] It covers an area of 74,601 square metres.
- Terminal 2 is currently closed while demolition and modernisation works take place. A new Terminal 2 is expected to open in 2014.[15]

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

9 BBC, http://news.bbc.co.uk/1/hi/uk_politics/7829676.stm (accessed 21 December 2012).

10 BBC, http://news.bbc.co.uk/1/hi/england/london/8678282.stm (accessed 21 December 2012).

11 Sections 66 and 67 were outlined in detail in the paragraphs 4.22 and 4.23 of the Consultation. The CAA recognises that that some of the facilities and services outlined in this appendix will be outside the airport area as defined in the associated determination. However, the CAA has provided this information for context.

12 Liaison Group of UK Airport Consultative Committees, http://www.ukaccs.info/profiles.htm (accessed 21 December 2012).

13 HAL, http://www.heathrowairport.com/about-us/facts-and-figures (accessed 21 December 2012).

14 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/terminal-1.html (accessed 21 December 2012).

15 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/terminal-2.html (accessed 21 December 2012).

- Terminal 3 mainly is home to long-haul flights, although some flights are to European destinations.[16] It covers an area of 98,962 square metres.
- Flights operating from Terminal 4 are mainly for long-haul and European destinations.[17] This terminal is connected to Terminals 1, 2 and 3 by the Heathrow Cargo Tunnel and covers an area of 105,481 square metres.
- Terminal 5 is currently used exclusively by British Airways (BA) and Iberia.[18] The main terminal building 5A, has an area of around 300,000 square metres, while 5B covers around 60,000 square metres.[19]

Aircraft stands

C15 The aircraft stands at Heathrow can be used flexibly for a range of different aircraft sizes. There are currently 133 aircraft stands that are served by an air bridge and 70 remote stands at the airport.[20]

Surface transport facilities and car parks

C16 Surface transport facilities and car parks at Heathrow include:[21]

- Three rail stations, Heathrow Central (Terminal 1, 2, 3), Terminal 4 and Terminal 5. The airport also has three stations on the London Underground, one for Terminals 1, 2 & 3, one for Terminal 4 and one for Terminal 5.[22]

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16 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/terminal-3.html (accessed 21 December 2012).

17 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/terminal-4.html (accessed 21 December 2012).

18 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/terminal-5.html (accessed 21 December 2012).

19 Rogers Stirk Harbour + Partners, Heathrow Terminal 5, http://www.richardrogers.co.uk/Asp/uploadedFiles/Image/1065_t5/RSHP_A_JS_1065_L_E_GB.pdf (accessed 20 May 2013).

20 HAL, http://www.heathrowairport.com/about-us/facts-and-figures (accessed 21 December 2012).

21 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.

22 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/transport.html (accessed 21 December 2012).

- The motorway system, particularly the M4, A4, A30 and M25 road networks which connect the airport to London and other areas.
- Car rental pick-up, drop-off, valet facilities and taxi and coach feeder parks.[23] There is also a central bus station located between Terminals 1, 2 and 3.[24]
- Car parks, which provide over 22,900 spaces.[25]

Cargo facilities

C17 There are 22 on-airport warehouses at the airport, including BA World Cargo.[26]

C18 HAL has indicated that 64 per cent of the UK's air cargo is handled at Heathrow and that, in 2012, it handled 1.56 million tonnes of cargo.[27]

Heathrow's traffic and customers

Traffic trends

C19 In 2012, Heathrow had 84 airlines each serving more than 10,000 passengers and was the busiest London airport in terms of passenger numbers.[28] This is illustrated in Figure C.1 (below), which shows that in 2012 the airport accommodated around 52 per cent of London's passengers, compared to the 25 per cent accommodated by Gatwick and the 13 per cent accommodated by Stansted.

23 Source: HAL [✂].

24 Heathrow airport guide, http://www.heathrow-airport-guide.co.uk/transport.html (accessed 21 December 2012).

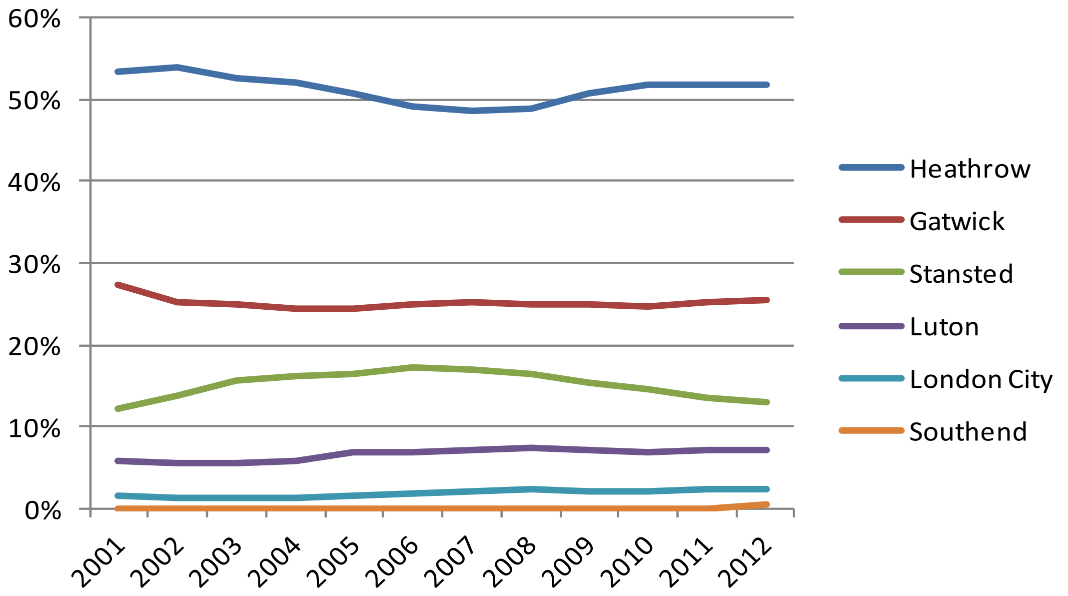
25 Source: HAL [✂].

26 Source: HAL [✂].

27 CAA airport statistics.

28 CAA airport statistics.

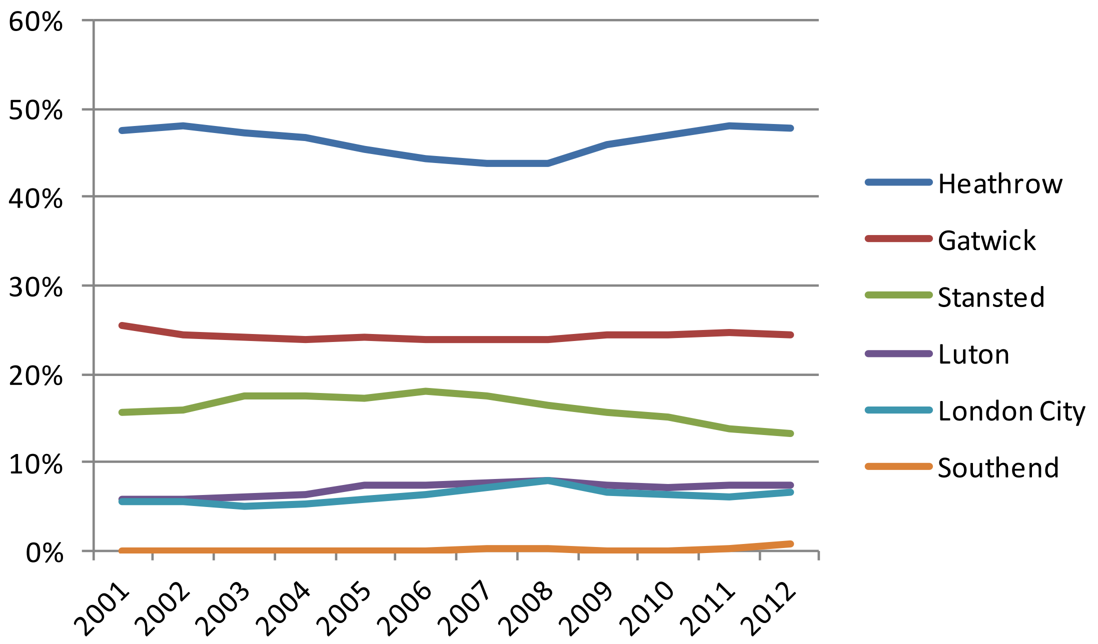
Figure C.1: Share of passengers among airports in London, 2001 – 2012



Source: CAA airport statistics.

C20 Heathrow is also the largest London airport when measured by air traffic movements (ATMs) – see Figure C.2 below.

Figure C.2: Share of ATMs among airports in London, 2001 – 2012



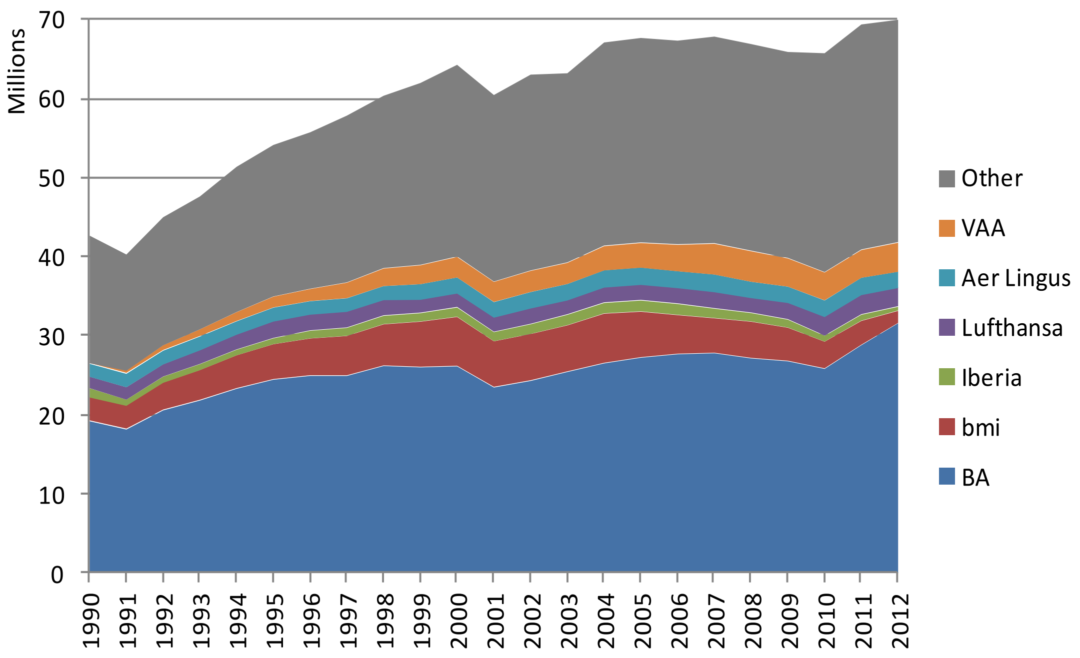
Source: CAA airport statistics.

C21 Figure C.2 shows that in 2012 the airport accounted for around 48 per cent of London's ATMs. This compares to the 24 per cent achieved by Gatwick and the 13 per cent achieved by Stansted.

Passenger airlines

C22 In 2012, Heathrow served 70 million passengers (see Figure C.3 below). At this time, BA, together with bmi, comprised 45 per cent of the passenger traffic at Heathrow. Other airlines present at the airport include Virgin Atlantic Airways (VAA) and a number of non-UK carriers serving principally their home markets.

Figure C.3: Passenger numbers by passenger airline at Heathrow, 1990 – 2012



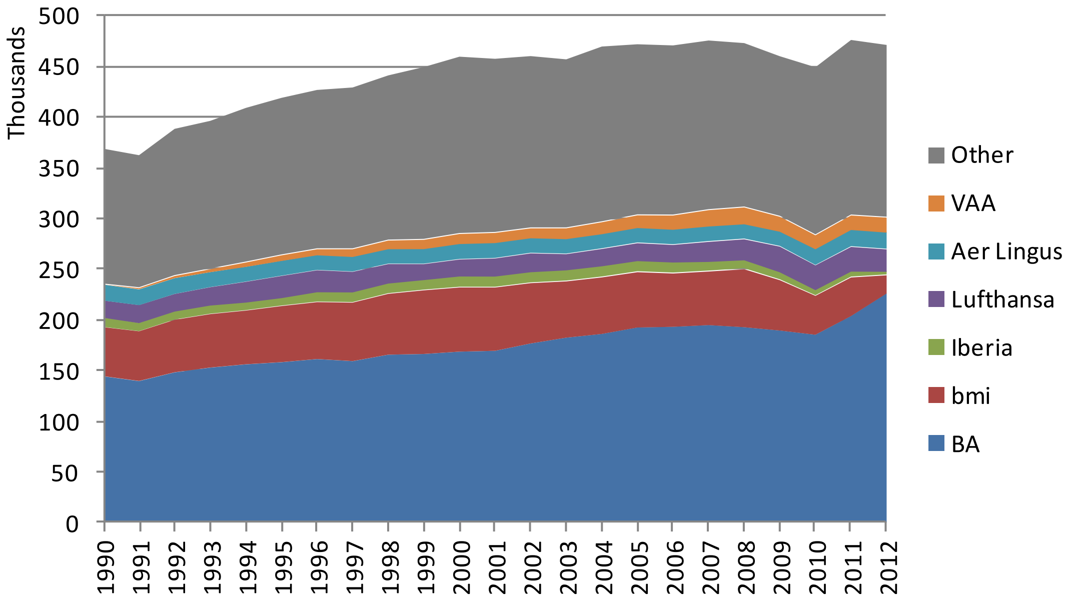
Source: CAA airport statistics.

C23 The strong presence of BA at Heathrow is also highlighted by Figures C.4 and C.5 (below). In particular:

- Figure C.4 shows that in 2012, BA, bmi and Iberia together[29] represented 53 per cent of ATMs at Heathrow with approximately 248,000 ATMs.
- Figure C.5 shows that in 2012, BA and other oneworld airlines represented 55 per cent of passenger traffic at Heathrow. This figure also shows that Star Alliance and SkyTeam flew 18 per cent and 7 per cent of passengers respectively.

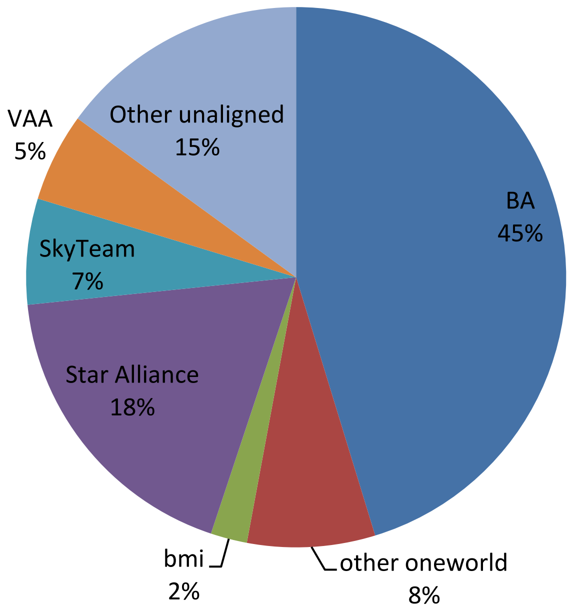
29 International Airlines Group has now control over these takeoff and landing slots.

Figure C.4: ATMs by passenger airline at Heathrow, 1990 – 2012



Source: CAA airport statistics.

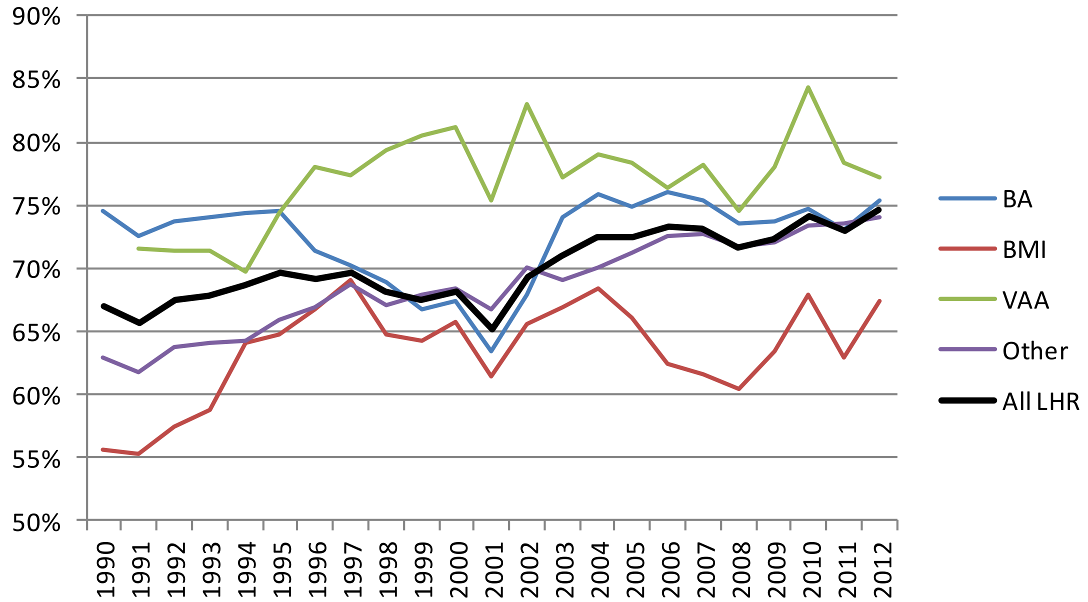
Figure C.5: Passenger numbers by passenger airline alliance at Heathrow, 2012



Source: CAA airport statistics.

C24 In 2012, the average load factor achieved by airlines at Heathrow was around 75 per cent, up from the 67 per cent seen in 1990, as shown in Figure C.6 below.

Figure C.6: Average load factors at Heathrow, 1990 – 2012



Source: CAA airport statistics.

C25 Over the last five years, a period covering challenging macroeconomic conditions, HAL has been successful at sustaining traffic from passenger airlines relative to the performance of other airport operators at other London airports. For example, between 2007 and 2012, Heathrow's passenger numbers increased by 3 per cent, while passenger numbers at other London airports fell by 10 per cent.

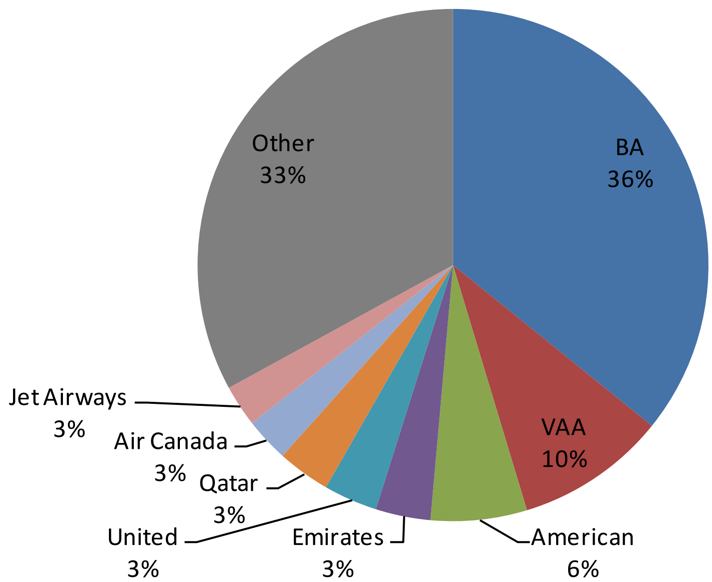
Cargo airlines

C26 Heathrow has a number of cargo-only carriers operating out of it.[30] Based on 2012 data, there were almost 2,400 cargo-only flights at Heathrow, which represents around 0.5 per cent of all flights. These flights were responsible for around 4.6 per cent of all cargo tonnage handled at the airport. European Air Transport (DHL) accounted for about 1,500 of such flights. However, the CAA understands that a number of these carriers used the airport in a one-off manner rather than as part of a regular service.

30 A cargo only carrier is, in general, an airline that specialises in the transportation of cargo (freight and/or mail) rather than passengers.

C27 Based on 2012 data, around 95 per cent of cargo at Heathrow is carried bellyhold (i.e., onboard flights that also carry passengers). This bellyhold cargo, together with the freighter traffic, makes Heathrow the most important airport in terms of cargo tonnage in the UK, with 61.3 per cent of the volume.[31] Figure C.7 (below) highlights Heathrow's cargo tonnage by carrier.

Figure C.7: Cargo tonnage by carrier at Heathrow, 2012



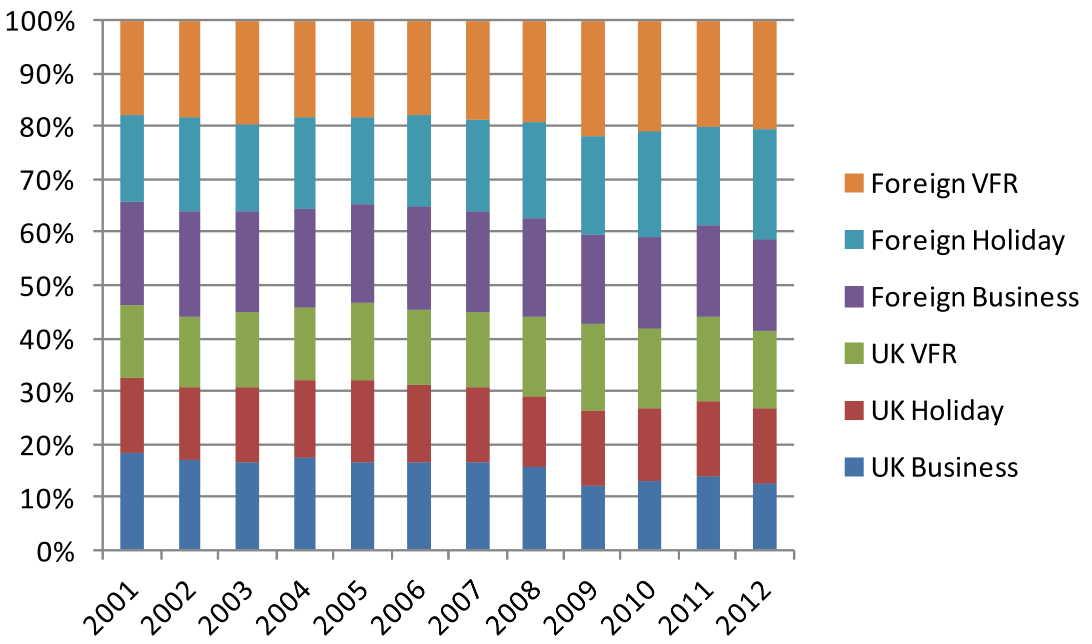
Source: CAA airport statistics.

Passenger types

C28 Heathrow caters to all passenger types, with it having relatively stable proportions and equal representation of the three major passenger segments – business travellers, passengers travelling for holidays and passengers visiting friends and relatives (VFR) – since 2001 (see Figure C.8 below).

[31] CAA airport statistics, this compares with Gatwick with 4.0 per cent, East Midlands with 11.8 per cent and Stansted at 9.5 per cent. There are, however, differences in the type of carriers operating at each of these airports.

Figure C.8: Passenger journey purpose at Heathrow, 2001 – 2012



Source: CAA Passenger Survey.

C29 Figure C.8 shows that in 2012 at Heathrow around:

- 30 per cent of the passengers were using the airport for business;
- 35 per cent of the passengers were using it for holidays; and
- 35 per cent of the passengers were using it for VFR.

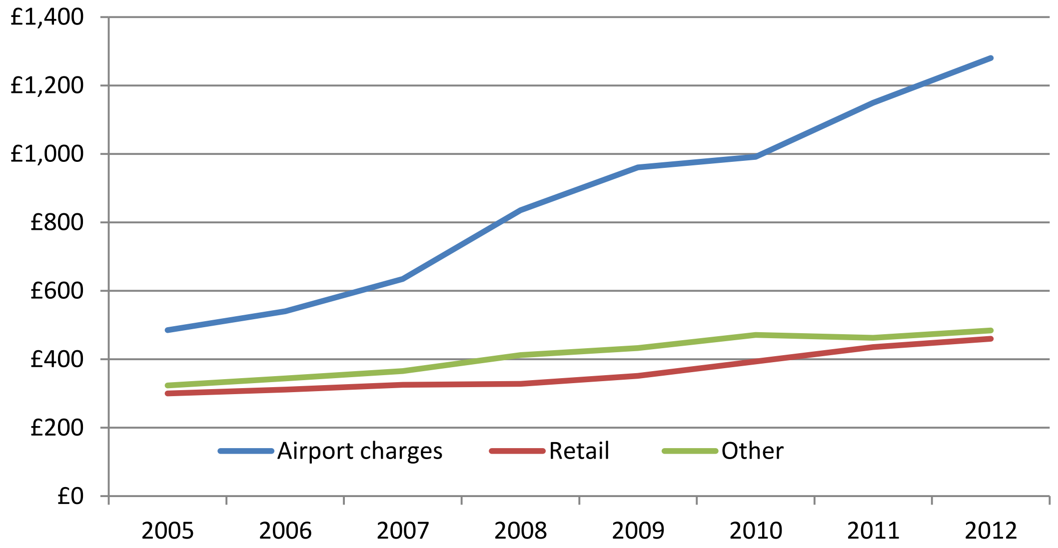
The business model used at Heathrow

C30 In general, HAL 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), car parking and property.
- Other income, specifically income from non-regulated aeronautical charges (i.e. revenue from charges levied on airlines for other services).

C31 Figure C.9 below shows the various revenues that HAL has received over the 2005 – 2012 financial years.[32]

Figure C.9: Revenues in million at Heathrow, 2005 – 2012



Source: HAL, Annual reports and financial statements
Note: 2005 and 2006 data is based on year ending 31 March reports, all other years represent year ending 31 December data.

C32 As Heathrow is a designated airport that is subject to price controls the maximum airport charge that its operator is permitted to charge is based on the CAA's:

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

C33 Each airport is also separately regulated, with price controls closely linked to the specific circumstances of the airport and the needs of the airlines and passengers at that airport. In addition, through the 'single-till' approach to regulation, users benefit from the co-funding of the airport operator's costs from unregulated commercial income (for example, commercial (retail) and car parking revenues) generated at each airport, thereby providing scope for the airport charges to be reduced.

C34 The actual airport charges that HAL sets for Heathrow are published in its Conditions of Use, which are available on the airport operator's website.[33]

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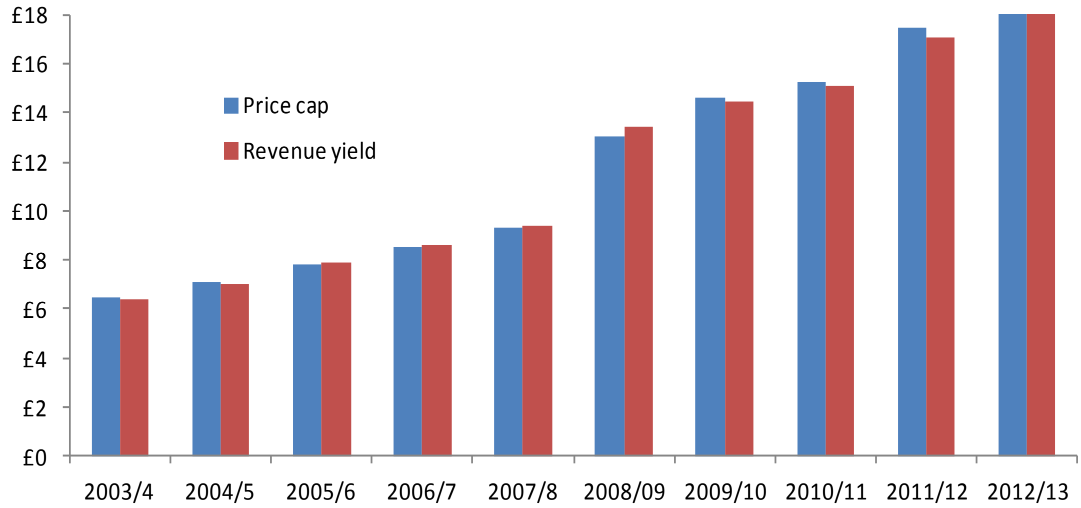
32 This information is taken from HAL annual reports and financial statements.

However, the charges outlined in Conditions of Use may not represent the charges that are actually paid by an airline. In particular, an airport operator can enter into bilateral agreements with airlines which can result in lower charges being paid by airlines.

C35 Figure C.10 (below) illustrates the regulated price caps (or maximum airport charge) that were set at Heathrow as well as the revenue yields that HAL has achieved over the period 2003/04 – 2012/13.

Figure C.10: HAL's airport price cap and revenue yields (per passenger – current prices)



Source: CAA analysis of regulatory returns

C36 Figure C.10 shows that since 2003/04, HAL has set the airport charges for Heathrow at the regulated price cap. The evidence submitted by HAL (and other stakeholders) supports this view – see appendix F.

Airport charges

C37 As outlined earlier, the airport charges at Heathrow are comprised of three types – charges on landing, departing passengers and aircraft parking – each of these charges is briefly explored below.

Charges on landing

C38 The charge on landing is a charge based on the weight of the aircraft, including its contents, and noise. Aircraft failing to meet set noise standards are subject to a higher charge. At Heathrow, a higher amount is also charged for flights landing in the night period.

[33] See: http://www.heathrowairport.com/about-us/partners-and-suppliers/conditions-of-use (accessed 20 May 2013).

Charges on departing passengers

C39 The charge on departing passengers is a charge that HAL imposes for each departing passenger. It 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 (although this is not always the case).

C40 As of 2009, HAL applied three different departing passenger charges based on destination (and therefore the infrastructure and services that the passenger was going to use). A rebate on these charges was, however, offered if the passenger left from a remote stand. The level of passenger charges at Heathrow over the period 2009/10 – 2010/11 is illustrated in Figure C.11 (below).

Figure C.11: Charges on departing passengers, 2009/10 – 2010/11

£ per passenger	Domestic	International	International (Republic of Ireland)	Remote stand rebate
2009/10	12.41	21.22	16.06	3.50
2010/11	13.43	22.97	17.38	3.79

Source: HAL, Conditions of Use 2009/10 – 2010/11.

C41 In 2011/12, HAL restructured its charges and rather than distinguishing between domestic and international flights, adopted an approach that distinguishes whether passengers were travelling to European or to other destinations, and whether passengers were transferring/transiting at Heathrow or not – see Figure C.12 below.

Figure C.12: Charges on departing passengers, 2011/12 – 2013/14

£ per passenger	All passengers except transfer or transit passengers		Transfer or transit passengers		Remote stand rebate
	European destinations	Other destinations	European destinations	Other destinations	
2011/12	21.8	30.63	16.35	22.97	4.08
2012/13	24.55	34.49	18.41	25.87	4.59
2013/14	28.3	39.75	21.23	29.82	5.15

Source: HAL, Conditions of Use 2011/12 – 2013/14.

Aircraft parking charges

C42 Aircraft parking charges are the charges that HAL imposes for the parking of aircraft at Heathrow which are, in general, based on an aircraft's weight and the duration of stay

C43 Figures C.13 and C.14 (below) show both the level of charges that HAL has imposed at different times over the period 2009/10 –2013/14, as well as how HAL has modified its charges over this period.

Figure C.13: Airport parking charges, 2009/10 – 2011/12

	Charges per 15 minutes or part thereof (£)	
	Fixed element	Per metric tonne
2009/10	7.08	0.113
2010/11	7.08	0.113
2011/12	3.38	0.053

Source: HAL, Conditions of Use.
Note: In 2009/10 and 2010/11 there was a peak premium associated with landing between 0700 and 1229 UTC (GMT), 1 April to 31 October. Parking during these times would see each minute count as three minutes. In 2011/12, parking was free between the hours of 2200 and 0559 UTC (GMT) from 1 April to 31 March. In 2011/12, parking was free between the hours of 2200 and 0559 UTC (GMT) from 1 April to 31 March. However parking between 07:00 and 12:29 UTC (GMT), 1 April to 31 October, saw each minute count as three minutes.

Figure C.14: Airport parking charges, 2012/13 – 2013/14

	Free period (mins)	**2012/13 Charge per 15 minutes or part thereof after the free period (£)**	**2013/14 Charge per 15 minutes or part thereof after the free period (£)**
Wide bodied aircraft	90	34.95	54.45
Narrow bodied aircraft	30	14.56	22.68

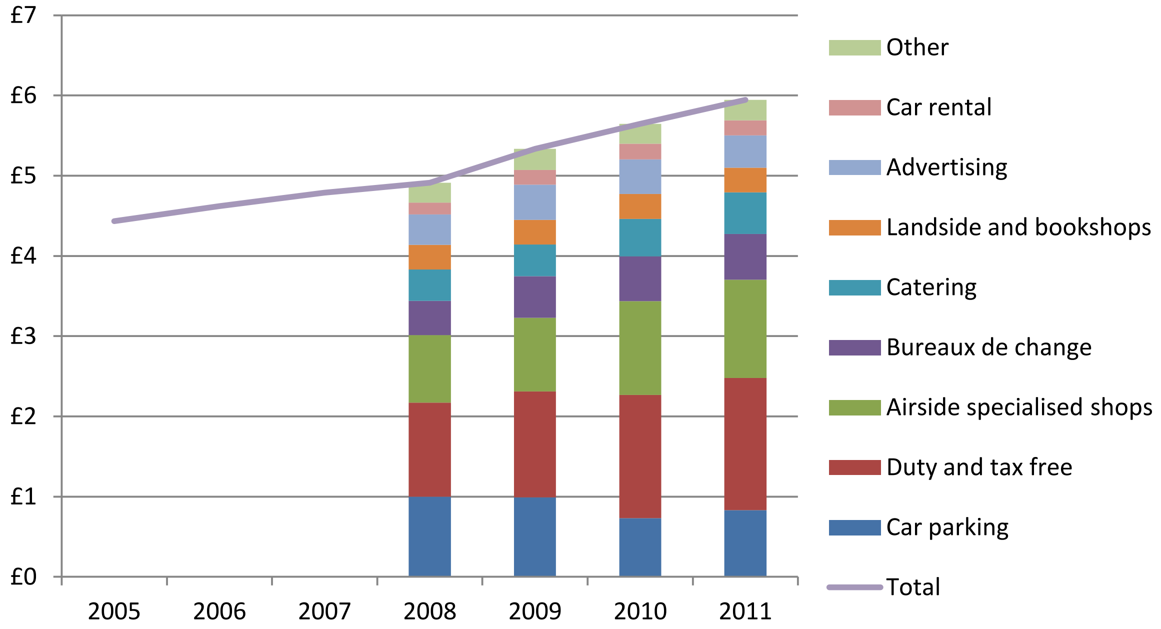
Source: HAL, Conditions of Use.
Note: Parking is free between the hours of 2200 and 0559 UTC (GMT) from 1 April to 31 March. Parking charges are applied from Chocks On to Chocks Off.

Commercial income

C44 As noted earlier, HAL generates revenue from a number of commercial activities, including car parking, various (airside and landside) retail outlets and catering.

C45 The revenue per passenger that HAL has generated from these sources over the period 2005 – 2011 is illustrated in Figure C.15 below.[34]

Figure C.15: Commercial revenue per passenger, 2005 – 2011



Source: HAL, Financial Statements.

Note: A detailed split of the different commercial streams is not available for 2005, 2006, 2007 or for 2012.

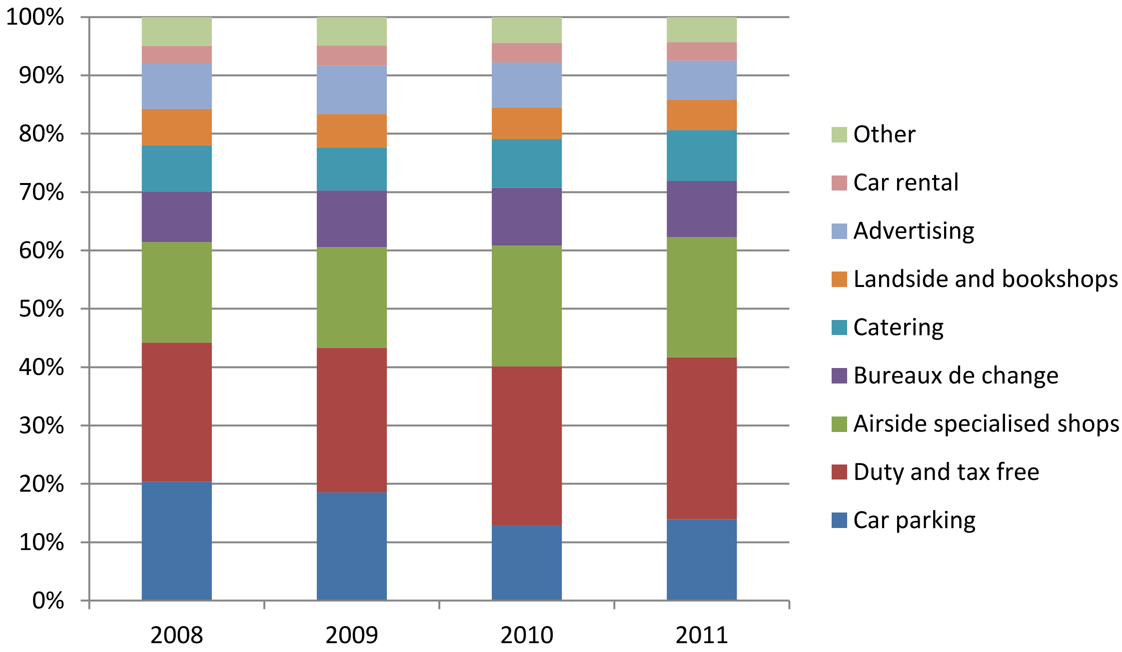
C46 Figure C.15 shows (among other things) that:

- Total retail revenue per passenger has increased from £4.43 to £5.95 over the period 2005 – 2011.
- 'Duty and tax free shopping' and 'airside specialised shopping' experienced relatively strong growth over the period 2008 – 2011.
- All other commercial revenues per passengers grew modestly or were stable over the period 2008 – 2011, with the exception of car parking, which experienced a slight decline.

[34] When considering this figure it is important to note that the granularity of information contained within the accounts changed over time, with greater granularity available from 2008.

C47 Another way of examining the changes in revenue that HAL has generated since 2008 can be seen by reference to Figure C.16 below.

Figure C.16: Sources of commercial revenue, 2008 – 2011



Source: HAL, Financial Statements.
Note: A detailed split of the different commercial streams is not available for 2012.

C48 Figure C.16 shows, on a percentage basis, the various sources of HAL's commercial revenue. In particular, it shows (consistent with Figure C.15):

- The growing contribution from 'duty and tax free shopping' and 'airside specialised shops', which together represented around 49 per cent of total revenue in 2011, up from the 41 per cent achieved in 2008.
- The declining contribution from car parking, which represented around 14 per cent of total revenue in 2011, down from the 20 per cent seen in 2008.