

# Consultation on issues affecting passengers' access to UK airports: a review of surface access (CAP1364)

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## Gatwick Response

### Introduction

Gatwick welcomes this opportunity to comment on the CAA document "Consultation on issues affecting passengers' access to UK airports: a review of surface access" (CAP1364).

This document sets out Gatwick airport's feedback on the specific consultation questions asked by the CAA. Annex 1 additionally outlines a draft set of good practice principles for surface access. These principles have been developed based on the feedback we received to an earlier consultation exercise we undertook in 2013. We have issued these principles to users for further comment in light of the CAA's document.

## Part 1: Feedback on consultation questions

Have we identified the key issues on market structure within the scope of this review?

### *Response*

We consider that generally the potential issues around market structure in surface access at airports are fairly well understood and the case law well developed, particularly in relation to vertical issues.

We consider that one area where the CAA's analysis of the market could be enhanced is the description and analysis of the wider context within which the airports operate. The analysis of the market structure does not take this into sufficient account. It is important to recognise that the incentives on an airport are heavily influenced by the multi sided platform nature of its business.

- An airport operator can only be successful if it simultaneously optimises the arrangements across products offered to aeronautical customers, retail customers and passengers (including surface access). Behaviour in one side of the market results in feedback effects from the other sides of the market (i.e. a passenger deterred from traveling by parking fees or awkward arrangements does not contribute to aeronautical income or retail).
- In markets with these characteristics the welfare maximising prices offered to the different sides may not correspond to the marginal cost of supplying the service to that side, meaning that cost reflectivity is more complex to assess.

While we understand the CAA's decision not to focus on these areas as part of this review, it is still important for the CAA to recognise that these characteristics are important as they can substantially change how observed characteristics of a market should be understood, the way consumer detriment is analysed and the magnitude of competitive constraints present in the market.

Have you any views and/or evidence on the market position of airport operators in the provision of airport services used to access the airport?

*Response*

Around London the airport catchment areas overlap significantly; as a result there is strong competition for passengers. The competition is strongest in the catchment overlaps, but Gatwick does not identify where passengers come from, and does not differentiate access prices based on origin. Competition benefits therefore extend to passengers originating in areas where less choice is available.

The CAA's catchment area analysis for airports verified that the overlaps are very large based on actual usage (with the potential overlaps based on travel times being even more significant). 34% of Gatwick's passengers are drawn from districts that are in the catchments of all four of the largest London airports, another 12% from districts that are in the catchment for Heathrow and either Stansted or Luton, and a further 18% from districts where Gatwick overlaps with Heathrow only. 22% of Gatwick's passengers are from outside of Gatwick's catchment area, leaving only 13% of Gatwick's passengers being drawn from districts where there is no overlap with another airport.<sup>1</sup> Similar conclusions were also reached by the "exposure analysis" that formed part of the Competition Commission's BAA airports decision.

This clearly suggests that Gatwick has a strong incentive to make it as easy for passengers to reach the airport from as a wide area as possible. This is reflected in our corporate targets for surface access mode share which target a public transport use of 40% at 40 million passengers (we currently exceed this target). It is also reflected in our recent substantial investment in train station facilities, as well as in the North and South terminal forecourts during the period 2008-13. In addition to this a further substantial investment in the train station facilities (along with Network Rail) is planned for around 2017.

We note that the CAA suggests that:

"It could be argued that passengers will choose airports predominantly based on the flights available and how far they need to travel, and generally take less notice of charges levied by airport operators on access. In this event, airport operators may be able to raise access prices to passengers and surface access operators above competitive levels."<sup>2</sup>

We believe this reasoning appears to conflate two separate issues;

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<sup>1</sup> Catchment area analysis working paper, CAA, October 2011

<sup>2</sup> Paragraph 4.5

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1. *An operator with market power in surface access may be able to leverage this market power:* The main competition problem here is an absence of competitive constraints which makes an abuse possible, for example through excessive access costs or leveraging market power through potential exclusivity agreements with surface access operators.
2. *The impact of imperfect information on passenger choices giving market power to the airport:* however, the data presented in the CAA's paper suggests that passenger awareness of surface access options is high, with 65% reporting themselves to be fully aware of the transport options and a further 31% reporting they had some idea. This suggests that the probability of significant market power arising exclusively from a lack of information is low.

It is important to note that the two main surface access cases in the UK (Purple Parking and Arriva/Luton) have both been vertical in nature, while the existence of an information problem to the extent that it would materially impact on competition and therefore consumer outcomes appears highly unlikely.

Have you any evidence or views on how well informed consumers are of their airport surface access options and on what is most important to passengers in accessing an airport? Is this an area that merits further research?

### *Response*

Gatwick has some research available regarding the reason why passengers choose to travel by rail and bus. This is based on survey returns where passengers are given the opportunity to record up to two reasons. The results are summarised below.

| <b>Reason for choosing</b>   | <b>Rail</b> | <b>Bus</b> |
|------------------------------|-------------|------------|
| Closest to home/work         | 23.8%       | 18.8%      |
| Cheapest/best VFM            | 22.3%       | 42.5%      |
| Fastest/most direct          | 52.3%       | 29.6%      |
| Only method available        | 13.5%       | 21.4%      |
| Recommended                  | 2.4%        | 3.1%       |
| Used before                  | 3.5%        | 4.7%       |
| Reliable/on time             | 1.7%        | 1.9%       |
| Comfortable                  | 1.2%        | 1.9%       |
| Avoid traffic/avoids driving | 5.3%        | 3.2%       |

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|  |      |      |
|--|------|------|
| Free/discount/staff travel             | 0.2% | 0.3% |
| Best/only available for time of travel | 0.3% | 0.3% |
| Greener/environmentally friendlier     | 0.1% | 0.1% |
| Easy to book online                    | 0.2% |      |
| other                                  | 0.2% | 0.4% |

While not directly the subject of the survey, these results support the view that general awareness of travel options to/from Gatwick and their respective merits is relatively high.

Have we identified the key issues related to the distribution of airport car parking? Do you have any views on what, if anything, would improve outcomes to consumers?

### *Response*

Price comparison websites provides a good example of how competitive markets can respond to an information problem and as long as the market for price comparison websites is competitive we consider that their existence should be welfare enhancing.

In our experience concentration among parking distributors appears to be significant-they are able to offer airlines arrangements covering multiple airports- and often airports have little choice but to make arrangements with them as they will otherwise be severely limited in their ability to access airline sales channels. Access to airline sale channels represents a significant proportion of parking sales at airports and therefore there is little choice but to make arrangements with such providers.

In general we do however not consider that the existence of agreements where distributors act as agents to sell airports parking on their behalf is likely to cause any competition issues.

Have you any views and/or evidence on how the information set that passengers have when choosing between airport surface access products could be improved for consumers?

### *Response*

As outlined elsewhere in this response we consider that airports are multi sided platforms that maximise profits by setting prices in such a way as to make sure that the maximum number of passengers and airlines wish to use their infrastructure. Given this they already have a strong incentive to actively promote surface access options; regulatory intervention should not generally be required.

## Other comments

- Paragraph 2.4-2.5: The CAA outlines that “at the licenced airport operators, Heathrow and Gatwick, revenues from commercial activities are regulated indirectly through the operation

of the “single-till”... However, under the current regulatory approach we may take any over-achievement into account when setting charges for subsequent periods.” While this accurately describes the prevailing regulation at Heathrow, and the system that prevailed at Gatwick until April 2014, it does not accurately describe the current regulatory context at Gatwick. The price path approach under Contracts and Commitments does not imply the automatic rebasing applied under RAB/cost based systems. While a shadow RAB is maintained, the CAA has stated that there should be no presumption that this would be used as the basis for a future price cap.

- Paragraph 2.5: “This means any over-achievement is likely to result in future reductions in regulated charges paid by airlines, and therefore lower fares for passengers.” This statement only holds true in the absence of capacity constraints. In the presence of capacity constraints at an airport (as the CAA has identified at the airports it regulates), then lower airport charges will not be passed on by airlines to passengers in the form of lower fares<sup>3</sup>.
- Paragraph 3.11: We consider that there are circumstances where it is appropriate for airports to proactively influence local planning policy, for example to safeguard land for future expansion.
- Paragraph 3.21: Regarding drop off and pick up we consider that it is inappropriate to group these elements together as they are fundamentally different and presents different challenges. Drop off generally involves the drop off of a passenger by a private car (or taxi/minicab), which stops only very briefly before moving on with very limited dwell time. This is fundamentally different from pick up activity which generally involves dwelling in the area (while waiting for the passenger being picked up). Experience at Gatwick and other airports has indicated that allowing pick up activity on the forecourt causes substantial congestion and health and safety issues, with knock on impacts on local traffic, public transport as well as emergency service access. We therefore direct pick up activities to use our car parks<sup>4</sup>. This approach was supported by the 2011 Government South East Airports Taskforce recommendations..

We also observe that the ability of airports to more strictly enforce dwell time rules on the forecourt is limited by the lack of secondary legislation enabling civil parking enforcement, leaving charging as one of the few practical tools available to manage congestion.

- Paragraph 3.30: We note the reported suggestions that airports should be “forced” to sell or lease long term parking spaces to a pre-defined threshold and potentially below market value. Absent any proven competition abuse this would effectively amount to an arbitrary transfer of property rights (and associated income) from the airport to another

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<sup>3</sup> See research done on behalf of Gatwick: Q5-050-LGW25 and Q5-050-LGW26 (available at: [http://www.gatwickairport.com/globalassets/publicationfiles/business\\_and\\_community/regulation/competition/september2012-galsadditionalvidencev2.zip](http://www.gatwickairport.com/globalassets/publicationfiles/business_and_community/regulation/competition/september2012-galsadditionalvidencev2.zip)) and more recently the Airports Commission: ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/439688/strategic-fit-scarcity-rents-and-airport-charges.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/439688/strategic-fit-scarcity-rents-and-airport-charges.pdf))

<sup>4</sup> Free pickup is available at the Long Term car parks at Gatwick

party, without any benefit to consumers. We consider that applying such draconian measures could only become feasible as a structural remedy following an investigation under the Enterprise Act, and even then, it would be highly unlikely to be either proportionate or practical.

- Paragraph 4.10 We consider that care needs to be taken when making comparisons between the ground handling sector and surface access. In particular, we note that the current, heavily commoditised, state of the ground handling market (at least at larger airports) can lead to poor consumer outcomes, particularly in the form of flight delays, and baggage delivery performance.

We note that some of the issues in relation to ground handling are similar to those already faced in off airport car parking – i.e. a lack of accountability. For example, passengers may be unaware that the ground handling agent which delivers their baggage (or attaches the airbridge to the plane) work for the airline rather than airport and will therefore be reluctant to switch airline in response to poor service (incorrectly assuming that it is the airport which is at fault). A similar situation already exists in relation to “cowboy” carpark operators at many airports and there is a risk that applying market opening measures similar to ground handling would make already challenging consumer issues worse.

- Paragraph 4.12: We note the CAA’s reasoning regarding assessment of market power for different purposes. It does however also hold true that the CAA needs to be mindful of the potential impact of its policies in economic regulation of airport operation services on other, complementary goods. For example, if the CAA sets access prices in the aeronautical market below market clearing prices (as it is deliberately doing at Heathrow and Gatwick) then it will also artificially stimulate demand and potentially prices for complementary goods such as surface access.

## Annex 1: Draft statement of principles

Gatwick airports ambition is to 'compete and grow and become London's airport of choice'. In order to achieve this we have a set of strategic priorities by which we run the business (figure A1 below). These priorities cascade down into everything we do and this includes surface access.

Figure [A1]



Surface access to and from the airport is the heartbeat of our airport – we need it to operate efficiently and effectively to achieve our ambition to grow and become London's airport of choice. It is also fundamental to attractive new airlines and is one of the three most important factors affecting an airlines choice of airport.

To help us deliver our ambition, we have developed three passenger commitments:

- We'll treat you as our guest
- We hate queues
- We love to be on time.

Our aim is that surface transport at the airport, and to and from the airport will deliver the outcomes to achieve our passenger commitments and our overall ambition. However, delivering this ambition involves a large number of partners.

Gatwick Airport's surface Access strategy for 2012 – 30 sets out the following vision for surface access at Gatwick:

- To be the best connected and accessible UK airport, delivering integrated surface transport
- Contribute to the sustainable economic growth of the local community and of the UK economy
- Lead the way for best practice in Surface Access Strategies, with innovation at its core.

The remainder of this document sets out a draft set of principles based on this vision upon which we propose forecourt access at Gatwick airport should be based going forward.

## Forecourt access at Gatwick

Gatwick Airport Limited ("GAL") provides access to the airport to a wide range of vehicles including private vehicles, taxis, scheduled buses and coaches, and car park and hotel courtesy buses.

We recognise that our surface access facilities are used by a range of different operators, including ourselves. It is therefore important that the charges to third parties using our facilities are based on transparent, fair, reasonable and non-discriminatory principles.

Gatwick Airport plays an important role in the local, regional and national economy and therefore our approach and policies associate with surface access cannot exist in isolation. Our overall approach to surface access is set out in our surface access strategy, which was last updated in 2012<sup>5</sup>. This provides an overview of the facilities available, as well the types of users.

### Previous consultation

The current approach to setting charges has developed over many years and resulted in a number of different tariffs for different types of user. We have previously instigated an initial consultation on changes to the structure of the charges to provide a simpler more consistent structure which is fair, reasonable and non-discriminatory. Due to resourcing pressures we have not been able to progress that consultation but are now in a position to do so.

GAL considers that charges for Forecourt Access Services should be based on the costs of providing them. GAL has therefore undertaken a detailed review of the costs incurred in providing Forecourt Access Services to bus and coach operators, which it has used as the basis for setting charges.

In February 2013 GAL consulted on its approach to setting bus and coach charges and received a wide range of comments including:

- Request to keep current structure
- Suggestion that charges should vary according to vehicle size

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<sup>5</sup> <http://www.gatwickairport.com/business-community/corporate-responsibility/sustainability-strategy/surface-access/>

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- Requests for reductions for larger buses
- Requests for reductions for smaller & more frequent buses
- Requests for charging to be based on passengers carried
- Requests for discounts for bulk carrying of passengers
- Requests to support and encourage the growth and development of new services
- Suggestion that charges to be based on cost recovery plus reasonable return.
- Requests for no more than inflationary increases
- Requests for protection of cost increases on smaller businesses
- Requests to charge taxis for picking up on GAL's forecourts
- Requests to charge based on proximity to terminal

In August 2013, GAL wrote to operators informing them that, given the wide range of views expressed, it would undertake a more detailed review of costs and charges for bus and coach services. That review was later delayed and postponed to take account of the recommendations of the CAA's study.

### Proposed principles for consultation

In setting prices, GAL is proposing the following:

- Subject to the management of wider issues such as congestion. GAL will seek to recover the full costs of these facilities from users except to the extent that there are either broader objectives and/or phasing in provisions in which case, some costs will be met by GAL. Should the forecourt facilities become significantly congested, then we may consider pricing as a tool to ensure a good passenger experience.
- GAL's own use of Forecourt Access Services will be priced on the same basis as other similar users.
- Prices for bus and coach operators will be based on sizes with prices for different vehicle sizes where appropriate.
- One of the major drivers of the cost of accessing the forecourt is the coach park. Use of this facility, particularly by charter coaches, is necessary to manage congestion on the forecourt itself. We propose the costs of the coach park should continue to be allocated based on use of the Coach Park. This will mean that, as the principal users, Chartered coaches and express coaches will be responsible for the majority of the costs of the coach park.
- Gatwick plays an important part in the local economy. To support local hotel and guest

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house owners, prices for courtesy buses operated by local hotels and guest houses and hotel hopper services (“Hotel Courtesy Buses”) may be set at lower levels.

- To support local transport facilities, GAL will not charge operators of local buses (“Local Scheduled Buses”) that use Forecourt Access Services;
- Gatwick, in cooperation with West Sussex Country Council, ParkMark and Trading Standards operates an Approved Operator Scheme for meet and greet operators. The scheme helps ensure that passengers receive an acceptable level of professionalism and service by, for example, requiring suppliers to demonstrate that their facilities meet planning and security requirements.
- Pick up: For security reasons and to manage congestion, pick up by cars, taxis and minicabs is not allowed in the drop off area on the forecourt and parties are directed to the short term car parks. We will, however, continue to operate a free alternative to this in the Long Term Car parks.
- Drop off: Drop off is currently free in the forecourts. If this should change in the future then we will arrange for a free alternative to be available in a similar way as for pick up.
- We will provide unbiased onward travel information to passengers through our website and onward travel kiosks.
- Gatwick will consult on the charges from time to time as appropriate.
- The development of facilities outside the airport perimeter is for the local planning authority to consider. Gatwick participates transparently in the local planning policy through the local plan and surface access strategy.

We will seek/have asked for further comments from stakeholders on these principles. Following the receipt of further comments we will evaluate our current charging structure against these principles and if necessary propose changes. This could for example include an assessment of the cost base (to align with the principle of charging ourselves for our own use). We would propose that any material changes identified would be phased to limit the potential impact on the community.