Annex to *CAP 770 No-Frills Carriers: Revolution or Evolution*

Traffic route level analysis

Introduction

1. This Annex examines the impact of no-frills carriers on the patronage of full-service scheduled carriers and charter carriers in the context of individual markets. It is intended to complement the analysis of aggregate trends in the main paper by illustrating, through examples, the way in which substitution and generation takes place in practice. It also contains additional detail to Chapters 4 and 5 of the report.

2. By examining the history of traffic to every single destination, and pattern of route introductions and cancellations over time, it would be possible, at least in theory, to provide a detailed analysis of the extent to which traffic to date has been substituted and how much has been generated. However, the need to limit the scope of the study to manageable proportions dictates that the analysis in this chapter is confined to just a sample of routes.

3. The routes were selected in such a way as to ensure that all broader segments of the short-haul market are represented in the sample. This being the case, more emphasis is placed on the analysis of traffic developments at London airports. The CAA has recently published a study which examined developing trends in UK regional air services, including the impact of no-frills carriers on traffic developments at UK regional airports[1].

Development of the scheduled network between the UK and the EU

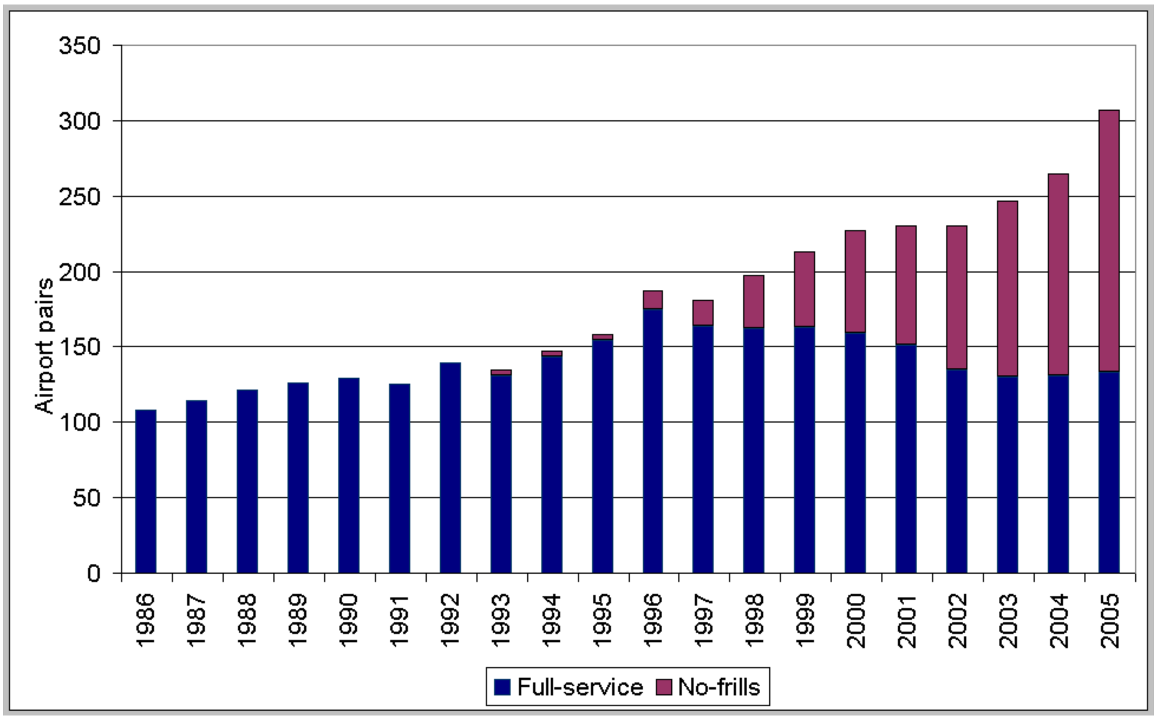
4. Before looking at the route level evidence, it is worthwhile examining briefly the progressive development of the scheduled network between the UK and the EU. The no-frills carriers have expanded their route networks rapidly, but by doing so they have also forced full-service carriers to close some of their routes, as well as discouraged them from starting new routes. This aspect of the competition between no-frills carriers and full-service carriers is seldom taken into account.

5. For the analysis of the scheduled network between the UK and the EU, the routes are designated on an airport-pair basis, and therefore different airports in the same city are considered individually. For example, flights from London Gatwick to Milan Linate and Milan Malpensa are two routes in their own right and so are flights from London Luton and London Stansted to Palma.

[1] CAA (2005) UK Regional Air Services, CAP 754.

6. Figure 1 shows changes in the number of routes between London airports and the EU between 1986 and 2005[2] – the longest time span for which data is readily available.

Figure 1: Number of scheduled international routes from London to the EU by carrier type



Source: CAA Airport Statistics

7. Overall, the number of routes expanded over time before the rapid growth of no-frills carriers in the second half of the 1990s. Between 1986 and 1996, the number of routes provided by full-service scheduled carriers increased from 108 to 175 (or, by 62%). Thereafter, the growth of the EU network has been driven by no-frills carriers which, by 2005, operated 173 routes between London and the EU.

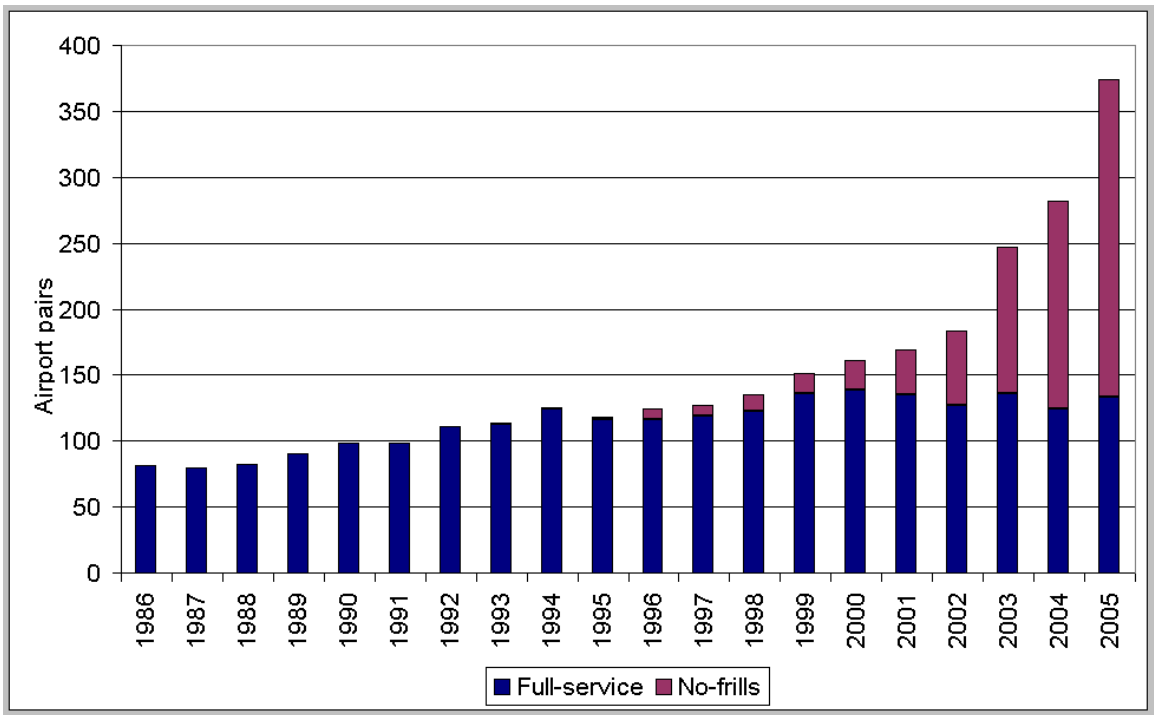
8. However, the net gain in routes was less impressive since the full-service scheduled carriers operated 41 routes fewer in 2005 than in 1996. The adverse impact on the full-service scheduled carriers is likely to have been greater than the loss of 41 routes since they themselves might have expanded their networks further judging by the trend before no-frills entry. However, trying to estimate what the full-service scheduled network would have looked like in the

[2] For the purpose of the analysis, a route is considered to be served in any given year if it had no less than 20 departing flights in the month of July which is traditionally the busiest month of the year. Using this definition, a small number of routes that came in and out of operation between two consecutive years will be omitted from the list of routes, and therefore this must be taken into account when interpreting the results.

absence of no-frills carriers would be difficult as it would involve second-guessing the industry.

9. Figure 2 shows changes in the number of destinations between UK regional airports and the EU between 1986 and 2005.

Figure 2: Number of scheduled international routes from the UK regions to the EU by carrier type



Source: CAA Airport Statistics

10. Perhaps not surprisingly, the regions have experienced a much more rapid growth of scheduled international routes to the EU than London in recent years. The number of routes provided by full-service carriers from UK regional airports increased from 81 to 116 (or, by 43%) between 1986 and 1996. From 1996, however, there has been a remarkable increase in the number of routes driven by the expansion of no-frills carriers which, by 2005, served as many as 214 routes. Despite such a rapid expansion of no-frills carriers, full-service carriers also managed a modest increase in the number of international routes: from 116 in 1996 to 133 in 2005.

Route level analysis

11. The analysis of route level evidence covers a selection of routes classified under four headings

- key European routes from London with early no-frills entry;

- charter routes from London;
- European routes from London with more recent no-frills entry; and
- regional routes.

12. In this analysis, the route definitions are expanded to include traffic at both primary and secondary airports within the same city airport system according to IATA classification[3]. For example, the London/Milan route includes services from all London airports to all airports which are considered by IATA to be part of Milan's airport system, including Bergamo.

Traffic developments on key European routes from London with early no-frills entry

13. The discussion in this section focuses on the ten densest scheduled routes between London and the EU, excluding Malaga, Paris and Dublin[4]. In 2005 these routes accounted for approximately 30% of the total scheduled traffic between London and the EU. Seven of the routes in the sample experienced no-frills entry in 1996 and one in each of the years 1997, 1998 and 1999.

14. Table 1 contains the following information:

- Date of no-frills entry;
- Number of scheduled passengers in 2005;
- Traffic growth in the 12-month period preceding no-frills entry;
- Traffic growth in the 12-month period following no-frills entry;
- Long-term growth before no-frills entry (1986 to year before entry); and
- Long-term growth after no-frills entry (year of entry to 2005).

[3] The only exception was made in the case of Barcelona where the analysis was expanded to include Gerona and Reus even though these two airports, according to IATA classification, are not part of the same airport system as Barcelona airport.

[4] London-Malaga is a traditional charter route which will be analysed in the section which looks at the impact of no-frills carriers on charter carriers. Dublin and Paris were excluded because the growth comparison before and after no-frills entry would be distorted because of external factors. Ryanair started operating the Dublin route as a no-frills service in 1991, which coincides with the first Gulf war and the onset of the early 1990s economic recession, while the traffic on the London/Paris route is affected by Eurostar services.

Table 1: Impact of no-frills entry on the key European routes from London

Route	Scheduled passengers in 2005 (000s)	Date of no-frills entry	12-month growth before entry (A)	12-month growth after entry (B)	B/A	Long-term growth before entry (C)	Long-term growth after entry (D)	D/C
Amsterdam	3,300	Apr 96	4.6%	16.8%	3.7	5.4%	2.6%	0.5
Barcelona	2,536	Jun 96	7.5%	32.6%	4.3	10.6%	15.9%	1.5
Frankfurt	2,077	Apr 99	8.8%	9.7%	1.1	6.0%	-0.3%	N/A
Rome	1,952	Nov 96	5.4%	9.2%	1.7	10.6%	6.2%	0.6
Milan	1,854	Jun 98	22%	16.4%	0.7	9.7%	3.1%	0.3
Madrid	1,732	Jul 96	8.9%	13.3%	1.5	7.9%	5.9%	0.7
Geneva	1,633	Dec 97	9.4%	12.8%	1.4	3.5%	7.1%	2.0
Copenhagen	1,361	Oct 96	7.7%	14.7%	1.9	8.7%	4.0%	0.5
Munich	1,287	Jun 96	17.9%	6.1%	0.3	10.7%	3.7%	0.3
Nice	1,261	Jun 96	0.4%	7.0%	17.9	9.9%	8.6%	0.9

Source: CAA Airport Statistics

15. Table 1 suggests that there are considerable differences in the way no-frills carriers affected traffic growth in the sample of routes in question. These routes have been classified into three groups to illustrate the relationship between no-frills entry and traffic growth:

- group 1: faster growth after no-frills entry over both short and long term (yellow colour);
- group 2: faster growth after no-frills entry over short term but not over long term (grey colour); and
- group 3: slower growth after no-frills entry over both short and long term (pink colour).

16. Barcelona and Geneva are the two routes where no-frills carriers have stimulated traffic irrespective of whether the focus of the analysis is on the short or long term analysis. In the case of Barcelona, the immediate impact of no-frills entry was immense with 32.6% growth in the first 12 months. Although the growth on the Barcelona route has slowed down since, it still remains faster than the long-term average growth before no-frills entry.

17. For Geneva, the immediate impact was less impressive than in the case of Barcelona. The growth rate accelerated from 9.4% in the 12 months preceding entry to 12.8% in the first 12 months after no-frills entry. Looking at the long-term picture, the growth on the Geneva route after no-frills entry (1997-2005) was twice as fast as before entry (1986-1996). Note, however, that the long-term growth on the Geneva route before no-frills entry (3.5%) was the lowest in the sample.

18. Nice, Amsterdam, Rome, Copenhagen, Madrid and Frankfurt are the routes where traffic growth accelerated during the 12-month period following no-frills entry, but long-term growth is below the rate achieved before no-frills entry, or, in the case of Frankfurt, has become negative. This, of course, does not imply that no-frills carriers have not stimulated traffic on these routes over the long term since the growth might have slowed down even further in their absence.

19. This being said however, the long-term growth rates on some of the routes have slowed down markedly in recent years which suggests that the stimulation effect may have been rather small.

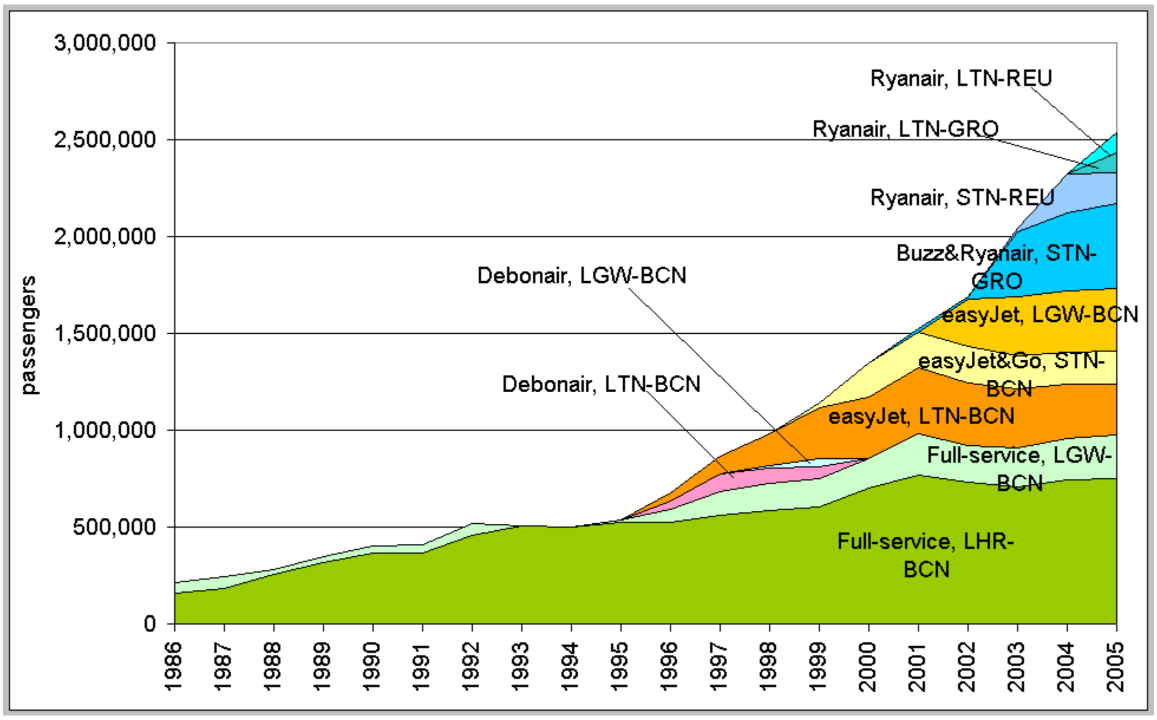
20. Finally, Milan and Munich are the two routes where traffic growth has not accelerated following no-frills entry either over the short or the long term. However, this needs to be seen in the context of a very high growth of traffic on these two routes in the years before entry because of an expansion by full-service scheduled carriers. In the 12-month period preceding entry, traffic on the Milan route expanded by 22% and on the Munich route by 17.9%.

21. Traffic developments on one route from each of the three groups listed in paragraph 15 are discussed below in more detail.

London/Barcelona

22. Figure 3 shows traffic development in the wider Barcelona market between 1986 and 2005.

Figure 3: Traffic development on London/Barcelona, 1986 – 2005



Source: CAA Airport Statistics

23. Between 1986 and 1992 the Barcelona market was served predominantly by Iberia with services from Heathrow to Barcelona and by BA with services from both Heathrow and Gatwick to Barcelona[5]. The traffic numbers grew by an impressive 15% a year during this period, in part benefiting from the build-up to the 1992 Olympic games. In 1993, however, BA withdrew its Gatwick service and traffic levels remained largely static until 1995 when the growth resumed.

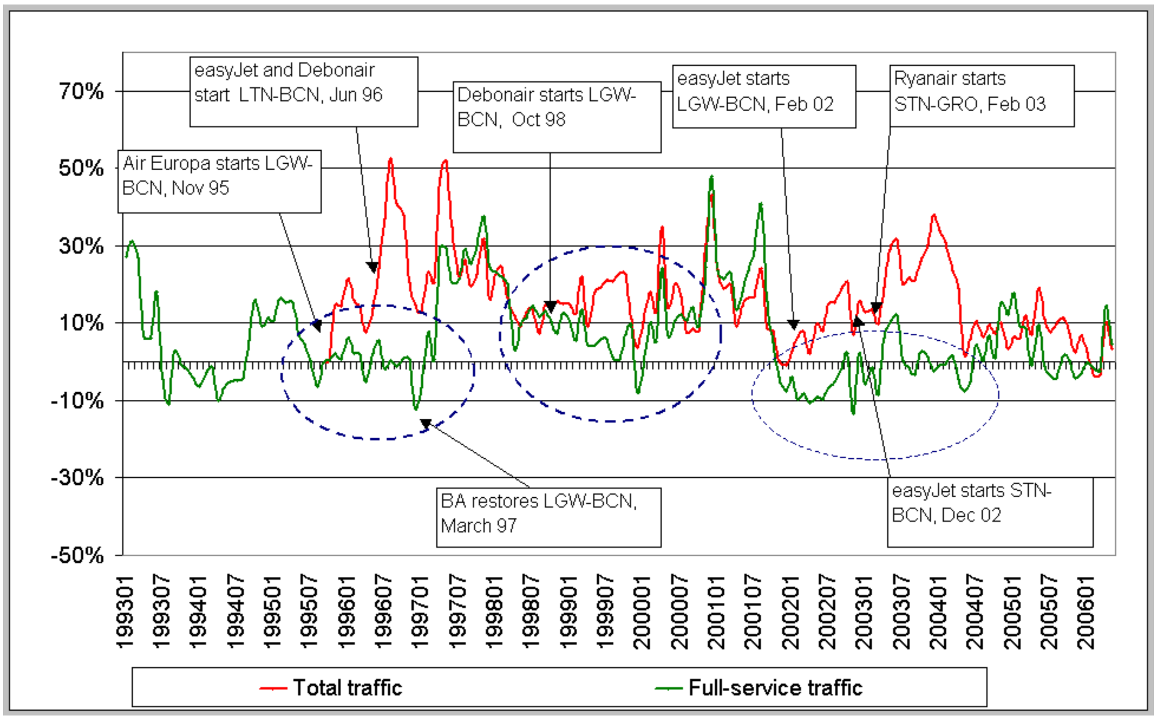
24. Spanish airline Air Europa, which like Debonair claimed to offer a low-cost but quality service, entered the market in November 1995 with a daily service from Gatwick. Air Europa was followed by easyJet and Debonair which both began daily services from Luton in June 1996. BA's no-frills subsidiary Go entered the route with a service from Stansted in September 1999. easyJet took over this service when it acquired Go in 2002 and also added a service from Gatwick in the same year.

25. Finally, Ryanair entered the wider Barcelona market in February 2003 when it took over Buzz's Stansted service to Gerona which had begun in April 2001. Ryanair further expanded its presence in the market by starting services from Stansted to Reus in November 2003 and to both Gerona and Reus from Luton in January 2005.

[5] Viva operated this service briefly in 1991.

26. The impact of these entries can be seen in Figure 4 which shows monthly growth rates for overall traffic and full-service traffic[6] in the London/Barcelona market between January 1993 and March 2006.

Figure 4: Growth rates on London/Barcelona, January 1993 – March 2006



Source: CAA Airport Statistics

27. Figure 4 suggests that the no-frills carriers had an impact on the growth of the route as a whole with the entry of easyJet and Debonair in June 1996 appearing to have had more of an effect than that of Air Europa in November 1995. However, Figure 4 also suggests that the no-frills entry had an adverse effect on full-service traffic, with growth being minimal, or at times negative, from late 1995 until the start of 1997, when BA restored the Gatwick service.

28. Both the full-service traffic and the no-frills traffic grew at a broadly similar rate from the start of 1997 to the second half of 1998 when Debonair introduced the Gatwick service. This gave the no-frills carriers an upper hand until Debonair suspended all its operations in September 1999. After Debonair's exit, the parity was restored and both the full-service carriers and the no-frills carriers enjoyed strong growth on the back of the economic cycle until the September 11 attacks, when traffic collapsed.

29. After September 11, the no-frills carriers further increased their presence in the market. easyJet added the new Barcelona service from Gatwick in February 2002, and was followed by Ryanair which started the Stansted/Gerona service

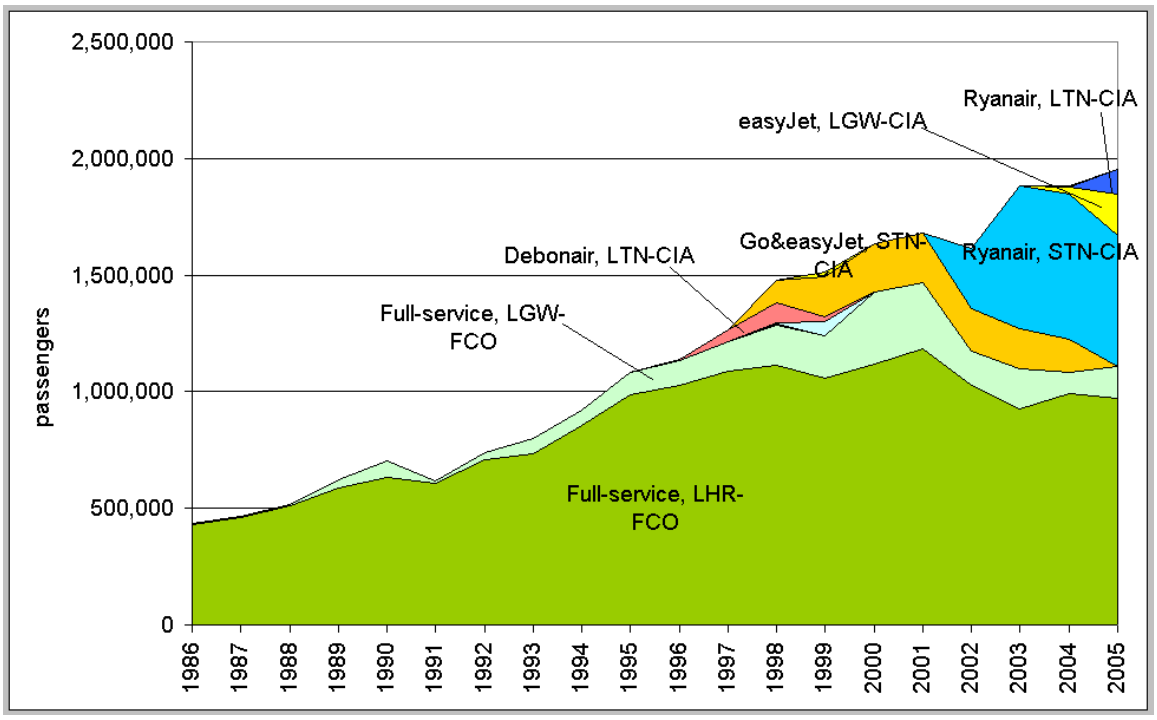
[6] The growth rates for no-frills traffic are omitted, as they are too high to fit on the graph without dwarfing the growth rates for full-service carriers.

in February 2003 and the Stansted/Reus service in November 2003. The total traffic on the route expanded considerably after these entries, but the traffic on full-service carriers remained depressed until the end of 2005. The subsequent entries by Ryanair – from Luton to Gerona and Reus in January 2005 – do not appear to have stimulated the growth much, which suggests that the market may have become more mature.

London/Rome

30. Figure 5 shows traffic development on London/Rome between 1986 and 2005.

Figure 5: Traffic development on London/Rome, 1986 – 2005



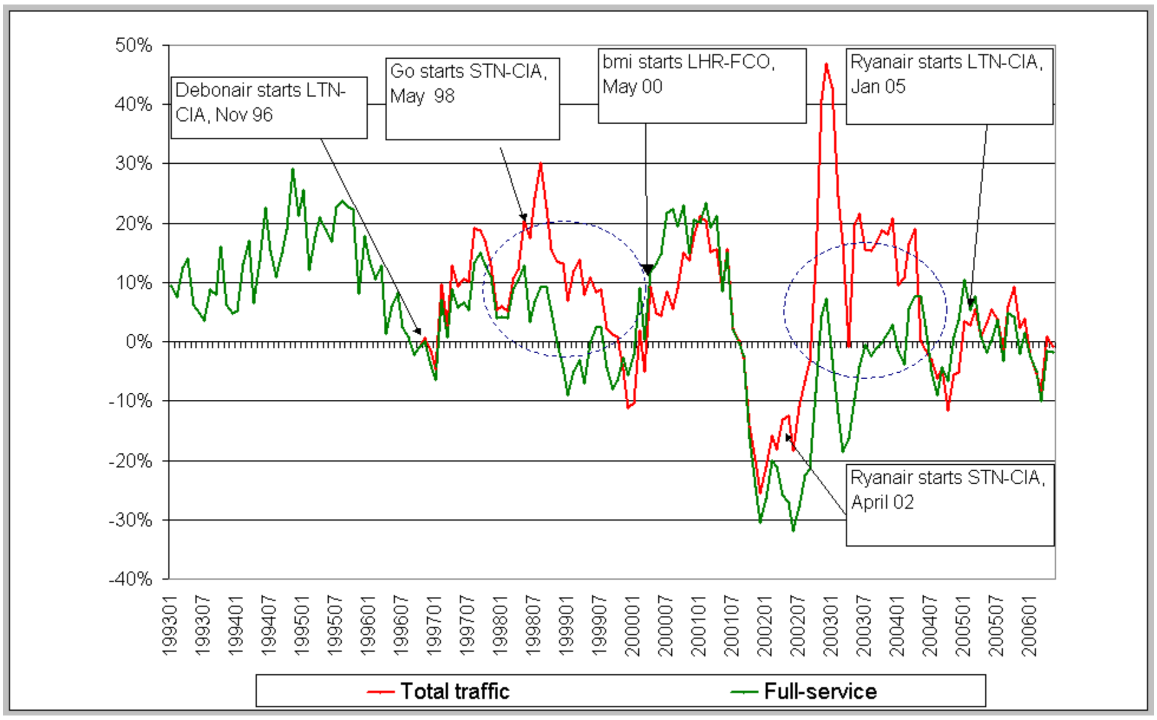
Source: CAA Airport Statistics

31. Before no-frills entry in 1996, the Rome route was served predominantly by BA and Alitalia. The two carriers operated services from both Heathrow and Gatwick to Rome Fiumicino. There were two attempts by smaller carriers – TAT and Air One – to enter the market. Neither of these attempts however was successful: Air One entered the market in June 1989 and exited in March 1991 and TAT entered in November 1994 and exited in June 1996.

32. The first no-frills carrier to enter the Rome route was Debonair which started services between Luton and Rome Ciampino in November 1996. Debonair was followed by Go which started a service between Stansted and Rome Ciampino in May 1998. The impact of these entries and the subsequent market

developments, including Ryanair's entries at Stansted and Luton with Ciampino services, can be seen in Figure 6 which shows monthly growth rates on the London/Rome route between January 1993 and March 2006.

Figure 6: Growth rates on London/Rome, January 1993 – March 2006



Source: CAA Airport Statistics

33. The entries of Debonair and Go onto the Rome route do not appear to have stimulated traffic growth much when considered against the growth pattern between 1993 and 1995. They did, however, affect the full-service traffic with its growth rate declining and eventually becoming negative in 1999. However, after bmi started a Fiumicino service from Heathrow in May 2000, competition intensified and full-service traffic expanded at a faster rate than overall traffic until traffic collapsed in the second half of 2001.

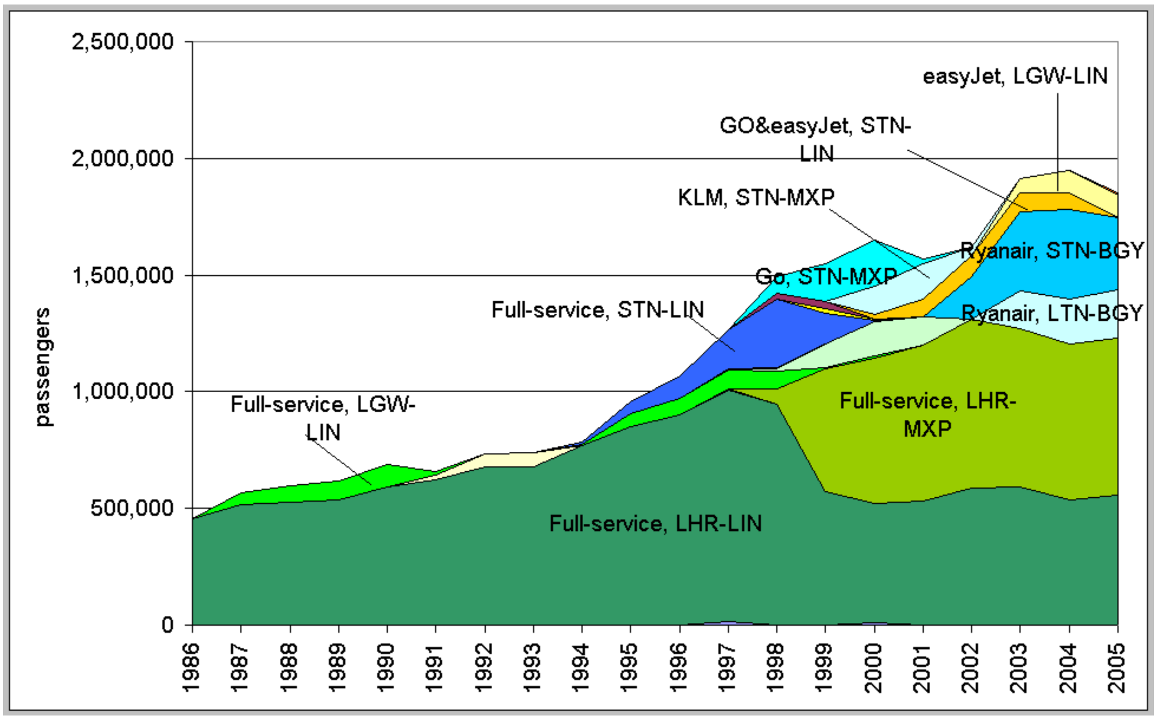
34. Ryanair entered the market at a low point in April 2002. Its entry coincided with a strong recovery of traffic with the growth rate close to 50% in December 2002. The growth of total traffic remained strong throughout 2003 and the first half of 2004 with monthly rates between 15% and 20%. Over the same period, however, passenger numbers on the full-service carriers remained depressed, which suggests that there was some leakage of traffic to the no-frills carriers.

35. By the end of 2004, however, growth of total traffic on the Rome route slowed down to below that on the UK-EU routes overall and Ryanair's most recent entry – the Luton/Ciampino service – in January 2005 has done little to change this.

London/Milan

36. Figure 7 shows traffic development on London/Milan between 1986 and 2005.

Figure 7: Traffic development on London/Milan, 1986 – 2005



Source: CAA Airport Statistics

37. The Milan route was one of the more competitive routes out of the UK before no-frills entry. Four carriers operated the route in 1997 with services between four airport pairs:

- Heathrow-Linate (BA and Alitalia);
- Gatwick-Linate (BA);
- Stansted-Linate (Air UK and Air One); and
- London City-Bergamo (Azzurra).

38. Go was the first no-frills airline to enter the route, with two daily services in May 1998 between Stansted and Malpensa. In 2001, Go gradually switched the Stansted service from Malpensa to Linate, and was replaced by easyJet in December 2002. easyJet started the Linate service from Gatwick in May 2003 and cancelled the Stansted/Linate service which it took over from Go in 2002.

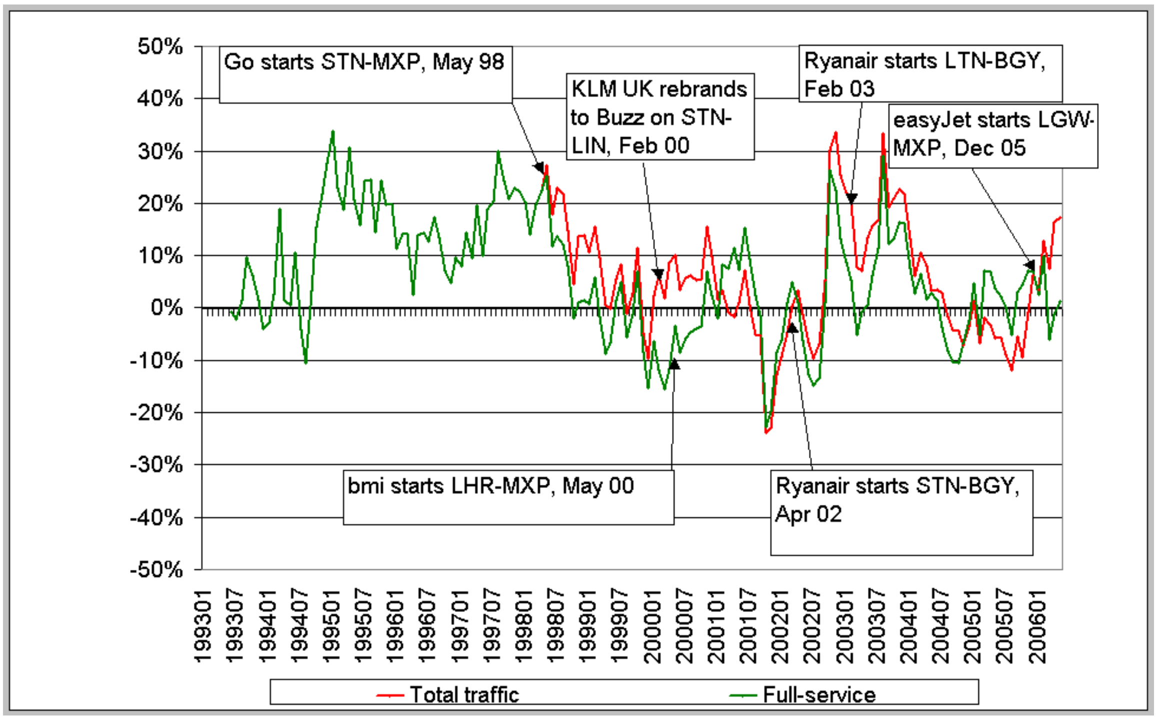
easyJet further strengthened its presence in the market by adding the Gatwick/Malpensa service in December 2005.

39. KLM UK's Stansted/Malpensa route became no-frills in February 2000 after KLM re-branded its Air UK acquisition to Buzz. However, Ryanair discontinued this service when it took over Buzz in April 2002 and replaced it with a Stansted/Bergamo service. In February 2003 Ryanair started a Luton/Bergamo service.

40. In May 2000 bmi entered the route with the Heathrow/Malpensa service. bmi switched this service to Linate in the second half of 2001 before pulling off the route altogether in March 2003.

41. The effect of the developments described above on passenger numbers on the Milan route is shown in Figure 8.

Figure 8: Growth rates on London/Milan, January 1993 – December 2005



Source: CAA Airport Statistics

42. The entry of Go onto the Milan route does not appear to have stimulated traffic even when growth is considered on a monthly basis. In fact, the growth rates declined following Go's entry and, in the case of the full-service carriers, became negative for large parts of 1999 and 2000. This points to a substantial substitution effect between the no-frills carriers and the full-service scheduled carriers on the Milan route.

43. The entry of Ryanair with the Stansted/Bergamo service in April 2002 and the Luton/Bergamo service in February 2003 appears to have stimulated traffic, although the impact was largely confined to 2003 and the first part of 2004, after which traffic slumped again. It is too early to say whether easyJet's addition of the Gatwick/Malpensa service in December 2005 will provide new stimulus to growth or merely redistribute existing demand.

44. The absence of growth stimulation on the Milan route, despite what appears to be intense competition between the no-frills carriers and the full-service carriers, is somewhat puzzling. One possibility is that the Milan route lost out to other Italian destinations which experienced no-frills entry around the same time or thereafter.

45. Table 2 below shows that no-frills carriers commenced services to a large number of Italian destinations in a relatively short time span (1998-2000). In 2000, for example, no-frills carriers operated from London to 15 Italian airports (serving 14 different destinations) – more than to any other European country in the same year.

Table 2: No-frills carriers' London-Italy route network, 1997– 2000

	1997	1998	1999	2000
1	ROME (CIAMPINO)	BOLOGNA	ANCONA	ALGHERO/SASSARI
2		MILAN (MALPENSA)	BOLOGNA	ANCONA
3		PISA	GENOA	BOLOGNA
4		RIMINI	MILAN (MALPENSA)	BRESCIA/MONTICHIARI
5		ROME (CIAMPINO)	PERUGIA	GENOA
6		TREVISO	PISA	LAMETIA-TERME
7		VENICE	RIMINI	MILAN (LINATE)
8			ROME (CIAMPINO)	MILAN (MALPENSA)
9			ROME (FIUMICINO)	NAPLES
10			TREVISO	PISA
11			TURIN	RIMINI
12			VENICE	ROME (CIAMPINO)
13				TREVISO
14				TURIN
15				VENICE

Source: CAA Airport Statistics

46. Greater consumer choice may have increased competition between different destinations and Milan, as a well-established route and relatively expensive for leisure travellers, may have lost out to destinations which did not have viable services before no-frills entry. The comparison between traffic growth on the Milan route (5.2% a year between 1998 and 2000) and the growth of the overall UK-Italy market (13.2% a year between 1998 and 2000) points towards this conclusion.

Impact of no-frills carriers on charter traffic

47. Charter carriers operate to a large number of sun destinations in the Mediterranean. On some of these routes, notably on routes to Spain and Portugal, they compete head-to-head with no-frills carriers. Charter carriers also operate to a large number of destinations in Greece, Cyprus and Turkey which, at present, do not have no-frills services and as such can be used as a comparison group to assess the impact of no-frills competition.

48. Table 3 shows traffic developments on the 15 densest European charter routes (including Turkey) from London, classified into two groups according to whether they are served by both charter carriers and no-frills carriers, or charter carriers alone (the comparison group). In 2005 these routes accounted for just over 60% of the total European charter market from London.

Table 3: Impact of no-frills entry on charter routes from London

		Charter passengers (000s)		
Destination	Country	2000	2005	Change
Served by both no-frills carriers and charter carriers				
Palma de Mallorca	Spain (Balearics)	969	632	-34.8%
Malaga	Spain (Mainland)	802	288	-64.1%
Mahon	Spain (Balearics)	486	287	-41.0%
Faro	Portugal (Mainland)	618	274	-55.6%
Ibiza	Spain (Balearics)	437	222	-49.2%
Alicante	Spain (Mainland)	564	213	-62.2%
TOTAL		3876	1916	-50.6%
Served by charter carriers alone				
Tenerife	Spain (Canaries)	916	682	-25.5%
Arrecife	Spain (Canaries)	487	464	-4.7%
Dalaman	Turkey	227	441	94.7%
Paphos	Cyprus	341	336	-1.4%
Las Palmas	Spain (Canaries)	520	320	-38.4%
Corfu	Greece	372	293	-21.1%
Fuerteventura	Spain (Canaries)	260	249	-4.1%
Heraklion	Greece	281	247	-12.0%
Zakinthos	Greece	216	206	-4.7%
TOTAL		3619	3239	-10.5%

Source: CAA Airport Statistics

49. The table above shows that the number of charter passengers on routes where charter carriers face competition from no-frills carriers declined between 2000 and 2005, and in the majority of cases by substantial percentages. Charter patronage on routes to Malaga, Alicante and Faro more than halved during the period in question, while the routes overall lost about 50% of their traffic.

50. Charter traffic to destinations where there was no competition from no-frills carriers also contracted between 2000 and 2005, with the exception of Dalaman, but on a much smaller scale than traffic on routes where charter carriers faced competition from no-frills carriers. As a group, these destinations lost 11% of their charter traffic in the six years since 2000.

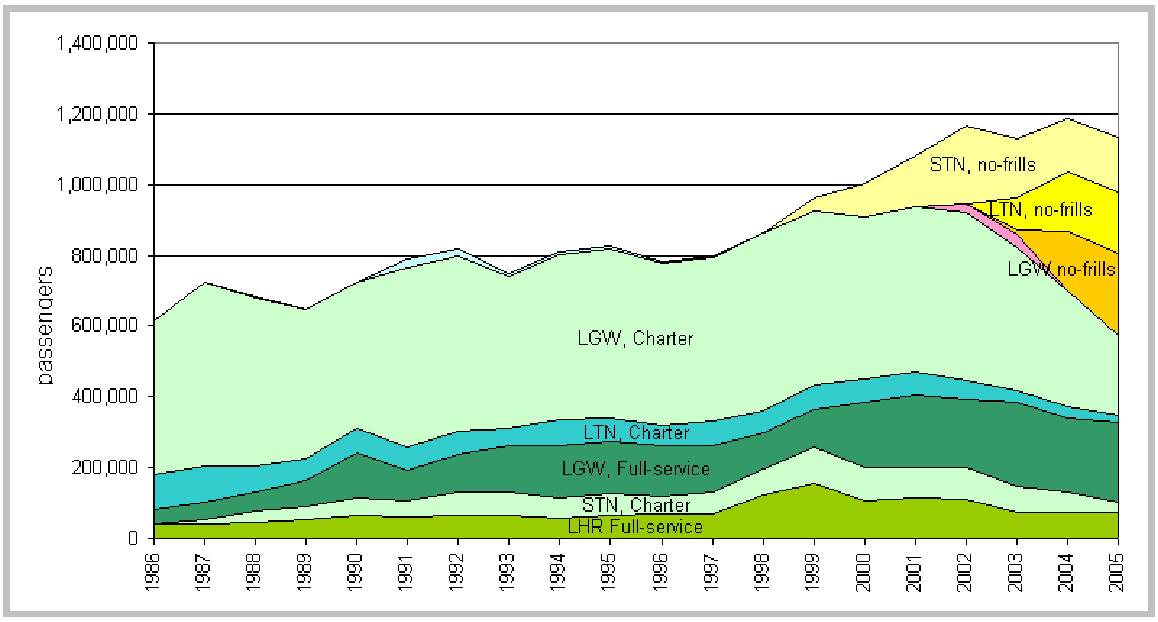
51. Taken together, these trends suggest that there has been a considerable diversion of traffic from charter carriers to no-frills carriers on routes where the two compete head-to-head on destinations, but that there is also a more general effect of substitution in favour of no-frills carriers due to the changing preferences of UK holidaymakers, with more passengers wanting flexibility and being prepared to use the internet to make their own travel arrangements.

52. In the following analysis, traffic developments on two routes where charter carriers and no-frills carriers compete head to head are examined in more detail.

London/Faro

53. Figure 9 shows traffic development on London/Faro between 1986 and 2005.

Figure 9: Traffic development on London/Faro, 1986 – 2005



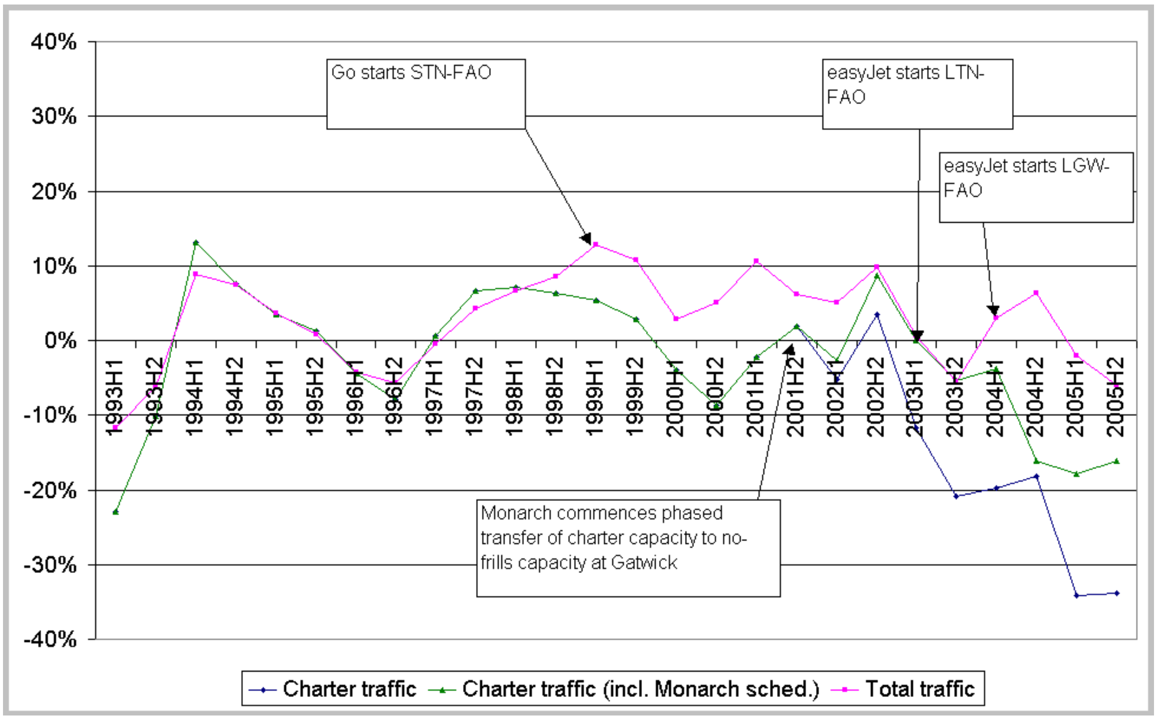
Source: CAA Airport Statistics

54. Before no-frills entry in 1999, Faro was served by two full-service carriers – Air Portugal from Heathrow and GB Airways from both Heathrow and Gatwick – and by a number of charter carriers operating from Gatwick, Stansted and Luton, including Monarch, Caledonian, Air2000 and Britannia.

55. Go was the first no-frills carrier to enter the Faro route, with four weekly services from Stansted in April 1999, increasing to a daily service later during the same season. easyJet took over Go's Stansted service at the end of 2002 and added services from Luton in April 2003 and from Gatwick in April 2004. In 2002, Monarch began transferring some of its charter capacity at Gatwick and Luton to the company's new low cost leisure product Monarch Scheduled (previously known as Crown Service). This accentuated the fall in charter patronage which is apparent in Figure 9.

56. The impact of these developments on traffic growth can be seen in Figure 10 which plots half-yearly growth rates[7] on the Faro route between 1993 and 2005. The traffic on this route appears cyclical, which means that it is difficult to isolate the impact of no-frills entry on traffic growth. However, it is reasonably safe to conclude that neither the entry of Go at Stansted in April 1999, nor the subsequent addition of Gatwick and Luton services by easyJet, have generated significant additional traffic on the route.

Figure 10: Growth rates on London/Faro, 1993 – 2005



Source: CAA Airport Statistics

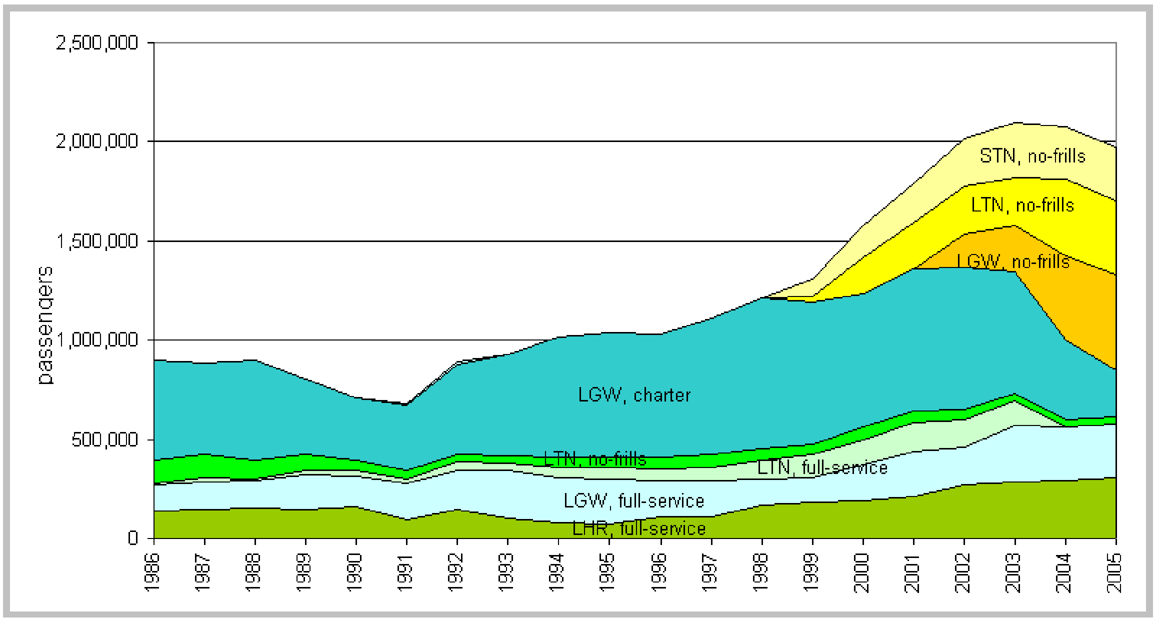
57. The fact that the charter carriers saw their traffic levels decline by significant percentages, even after allowing for the effect of Monarch switching from charter to scheduled services, suggests that the main impact of no-frills entry was to divert traffic from charter carriers rather than to generate new demand.

[7] For clarity, half-yearly growth rates were used in place of monthly growth rates which are highly volatile depending, for example, on the timing of Easter.

London/Malaga

58. Figure 11 shows traffic development on the London/Malaga route between 1986 and 2005.

Figure 11: Traffic development on London/Malaga, 1986 – 2005



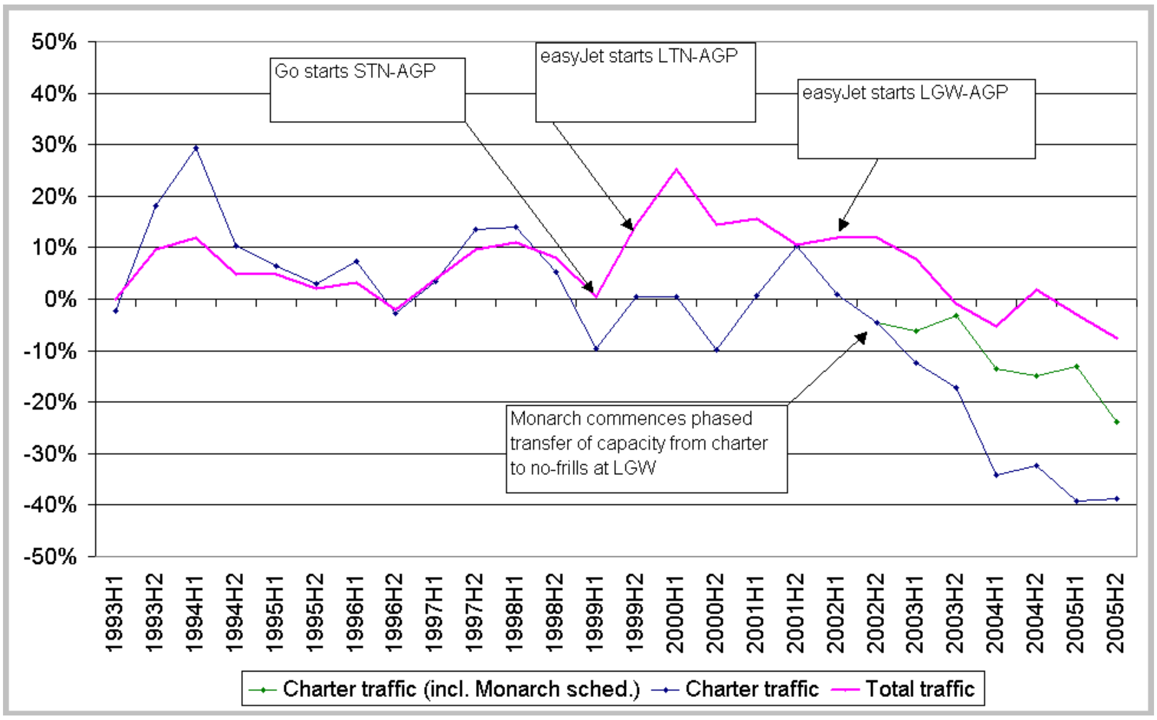
Source: CAA Airport Statistics

59. Before no-frills entry in 1999, the supply structure on the London/Malaga route was similar to that on the Faro route. The route was served by a large number of charter carriers from Gatwick, Luton and Stansted with a joint market share of about 70% of total traffic. The scheduled incumbents were Iberia from Heathrow and GB with services from both Heathrow and Gatwick.

60. Go was the first no-frills carrier to enter the market in April 1999 with a service from Stansted. easyJet followed shortly after with a service from Luton in October the same year. In February 2002 easyJet started a Gatwick service before taking over Go's Stansted service in December of the same year. As in the case of the Faro route, Monarch commenced a phased transfer of charter capacity to its scheduled product towards the end of 2002 and by 2005 this airline maintained only a nominal presence in the charter segment of the market.

61. The impact of these developments on traffic growth can be seen in Figure 12 which plots half-yearly growth rates on the London/Malaga route between 1993 and 2005.

Figure 12: Growth rates on London/Malaga, 1993 – 2005



Source: CAA Airport Statistics

62. The passenger numbers in the first half of 2000 were 25% higher than in the previous year, which implies a fairly strong traffic stimulation following the entry of no-frills carriers. However, the longer-term picture is similar to that on the London/Faro route with growth of total traffic slowing down after 2002 and eventually becoming negative, and charter patronage declining markedly over the same period.

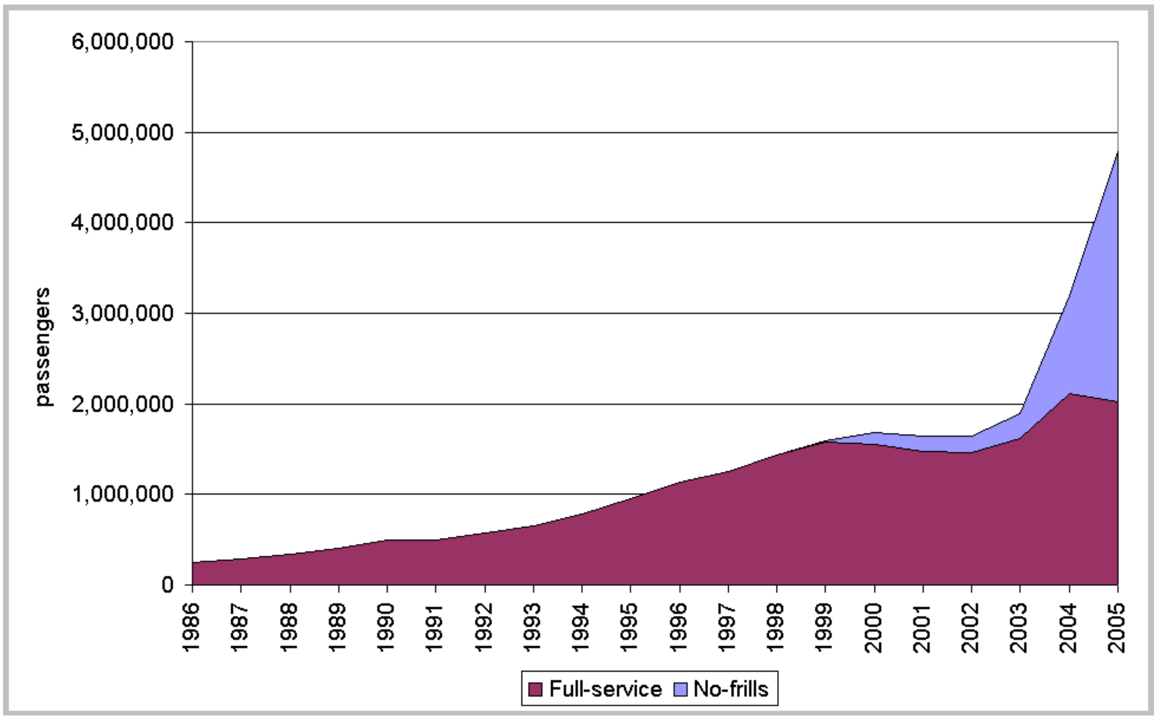
Traffic on European routes with more recent no-frills entry

63. Before the enlargement of the EU, the aviation market between London and Eastern Europe was relatively underdeveloped. In 2002 there were just seven destinations in Eastern Europe with direct services from London. In total 1.6 million passengers travelled between the UK and these destinations in 2002, which is less than, for example, on the London/Amsterdam route alone.

64. Following the accession of the new Member States, there has been a rapid expansion by no-frills carriers into Eastern Europe. By 2005 the number of East European destinations served from London increased to 20 – all but two served by no-frills carriers – and passenger numbers trebled to 4.8 million. Figure 13

shows the growth of scheduled traffic between London and Eastern Europe split by carrier type between 1986 and 2005.

Figure 13: London/Eastern Europe passenger traffic, 1986 – 2005



Source: CAA Airport Statistics

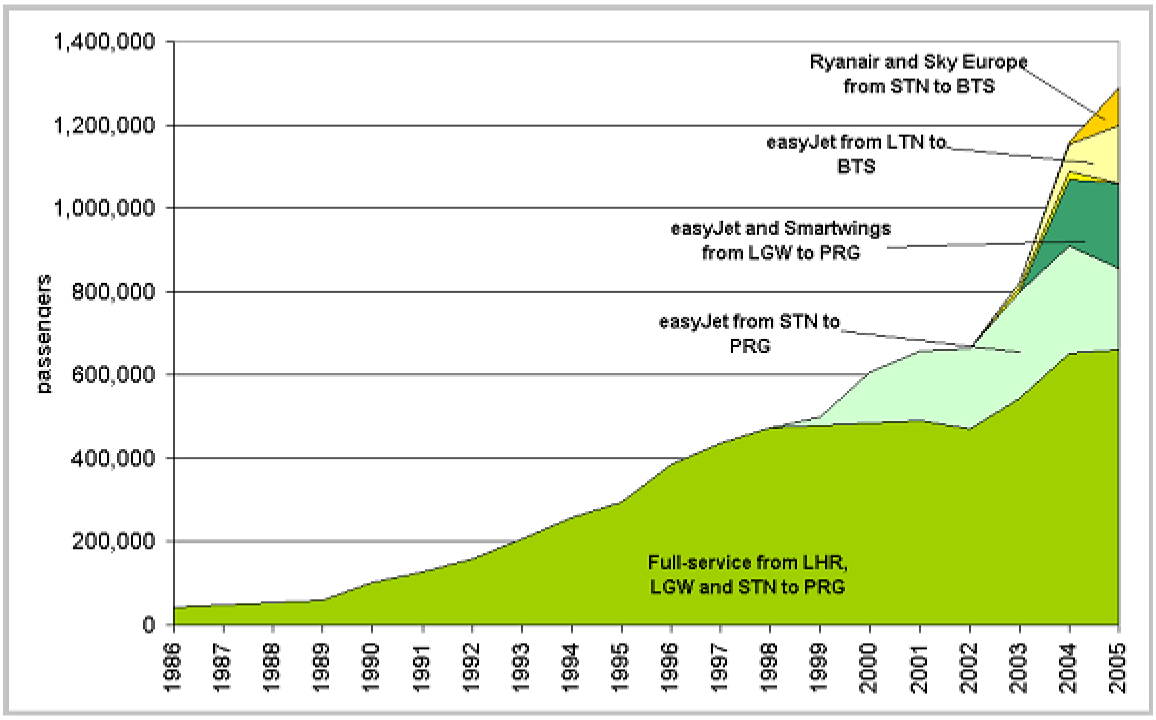
65. Figure 13 shows that the entry of no-frills carriers on the London/Eastern Europe market has led to a substantial stimulation of air traffic with a fairly small detriment to incumbents' operations. This being said, however, it is possible in the absence of no-frills carriers that some apparently stimulated traffic might have started up eventually through full-service routes.

66. It has been suggested that the competition in the UK to Eastern Europe leisure market takes place as much between different destinations as between different operators. Some anecdotal evidence from the industry suggests that Eastern European destinations are perceived, by UK holidaymakers in general, as lacking distinctive image and that many leisure travellers choose between these destinations mainly on price[8]. The analysis of traffic developments on the London/Prague and the London/Bratislava routes described below provide some support for these views.

67. Figure 14 shows traffic developments on the London/Prague and the London/Bratislava routes:

[8] One airline goes as far as quoting the price of beer in various Eastern European destinations on its website next to where it advertises fares.

Figure 14: Traffic developments on London/Prague and London/Bratislava, 1986 – 2005



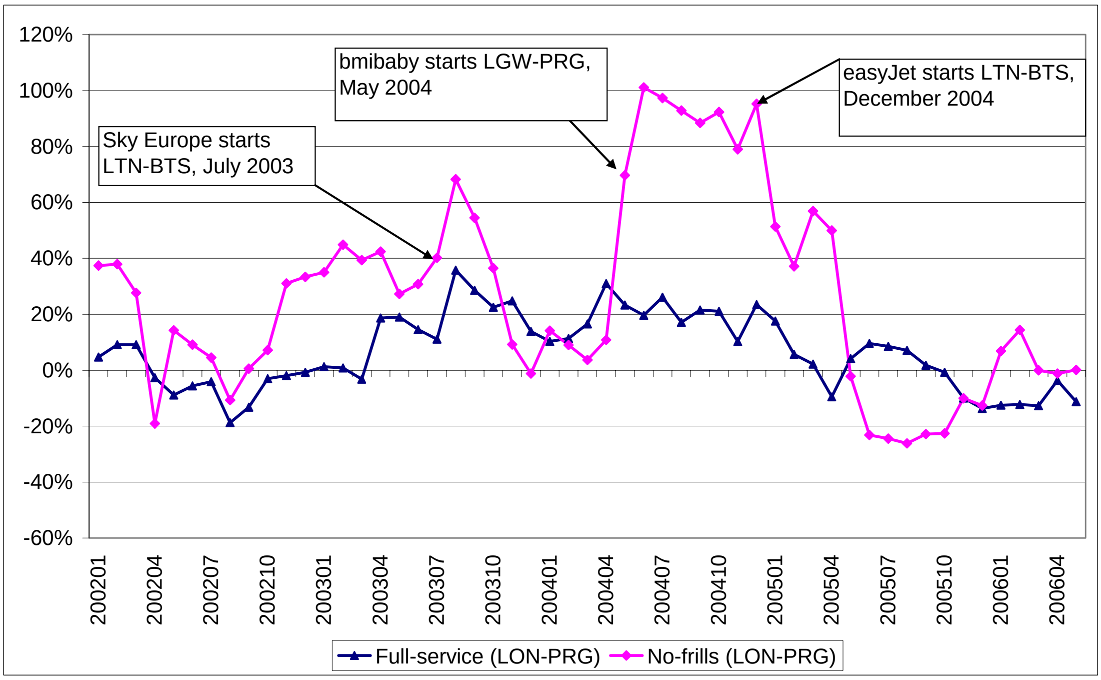
Source: CAA Airport Statistics

68. Prague had a well-established service before the entry of no-frills carriers. The incumbent carriers were BA and bmi with services from Heathrow and CSA with services from both Heathrow and Stansted. Go was the first no-frills carrier to enter the Prague route in September 1999 and this service was taken over by easyJet in December 2002. BA and easyJet both started services to Prague from Gatwick in the first half of 2004.

69. Despite being the capital of Slovakia, Bratislava did not have direct air services to the UK until Sky Europe, a Slovakian no-frills carrier, started services to Stansted in July 2003. Sky Europe was followed by easyJet which started services from Luton in December 2004 and Ryanair with services from Stansted in October 2005.

70. Figure 15 shows growth rates in the Prague market and suggests that the entry of the no-frills carriers to the Bratislava market has had a marked adverse impact on the growth of traffic on the Prague route.

Figure 15: Growth rates on London/Prague, January 2002 – March 2006



Source: CAA Airport Statistics

71. The Prague route was a growing market before the entry of no-frills carriers onto the Bratislava route. However, within five months of Sky Europe's entry onto the Bratislava route, the growth of traffic on the Prague route ground to a halt. Growth did return to the Prague route when bmibaby started the Gatwick/Prague service in April 2004 only to slump again shortly after easyJet started the Bratislava service from Gatwick in December 2004.

Regional routes

72. In February 2005 the CAA produced a detailed study of UK regional air services. This study showed UK regional air services to be in general in a good state of health, and to have enjoyed a period of substantial and sustained growth over the period examined. Although not explicitly addressing the issue of traffic stimulation and substitution, the study looked at the impact of no-frills entry on traffic growth for a selection of mainly domestic routes. For these routes, the study concluded that no-frills carriers have stimulated significant amounts of traffic although in some cases full-service carriers saw their absolute traffic levels decline[9].

[9] The examples include: Belfast/Edinburgh, Bristol/Edinburgh, London/Belfast, London/Edinburgh, London/Glasgow and London/Inverness.

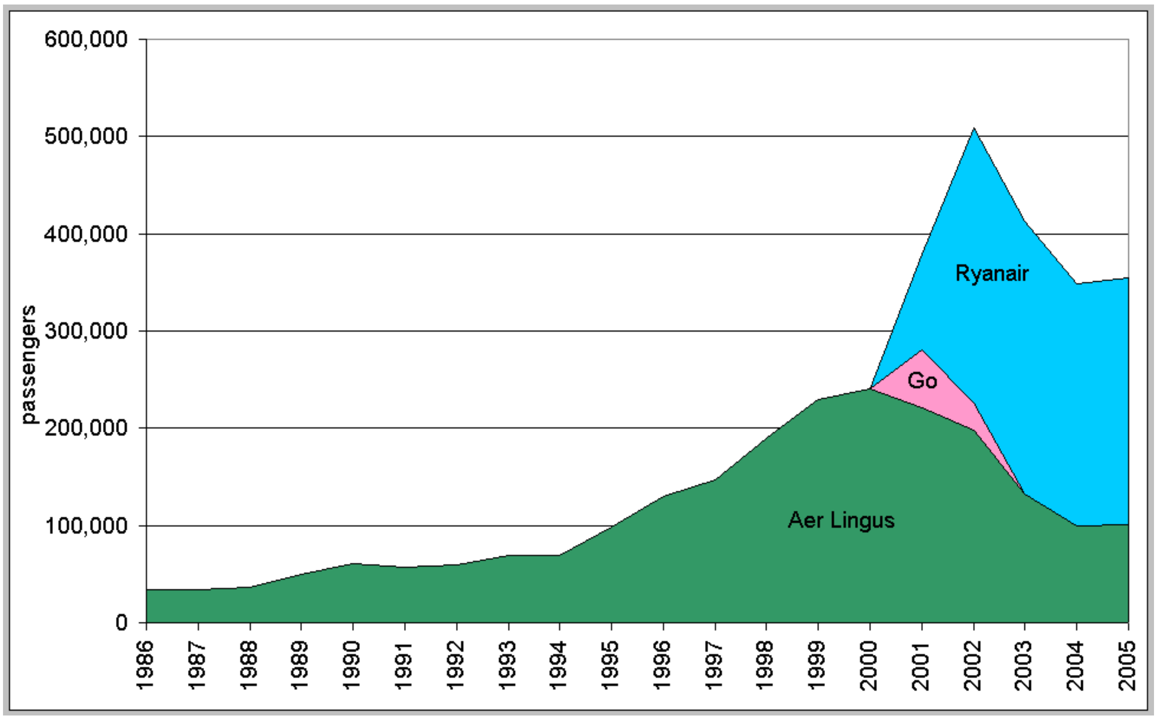
73. The present study focuses on international traffic from the regional airports. The analysis covers a selection of routes classified under two headings:

- routes from the same airport; and
- routes from airports with overlapping catchment areas.

Routes from the same airport

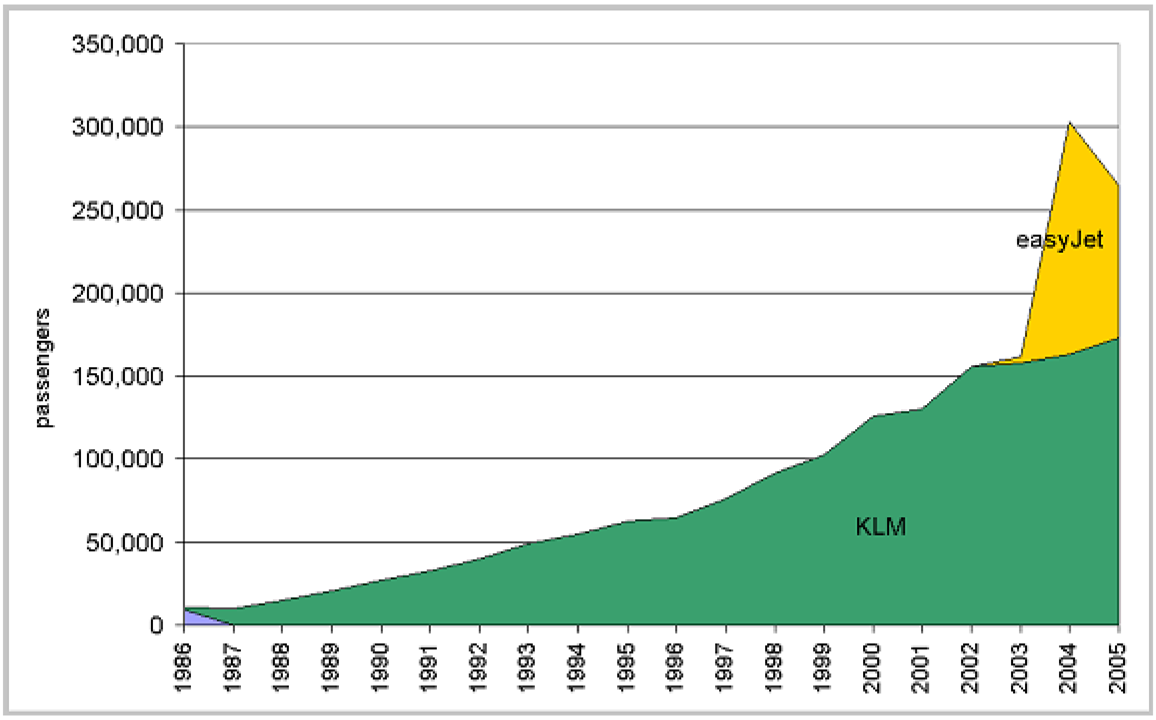
74. Figures 16 to 18 show traffic developments on the Edinburgh/Dublin, Bristol/Amsterdam and Bristol/Malaga routes between 1986 and 2005.

Figure 16: Traffic development on Edinburgh/Dublin, 1986 – 2005



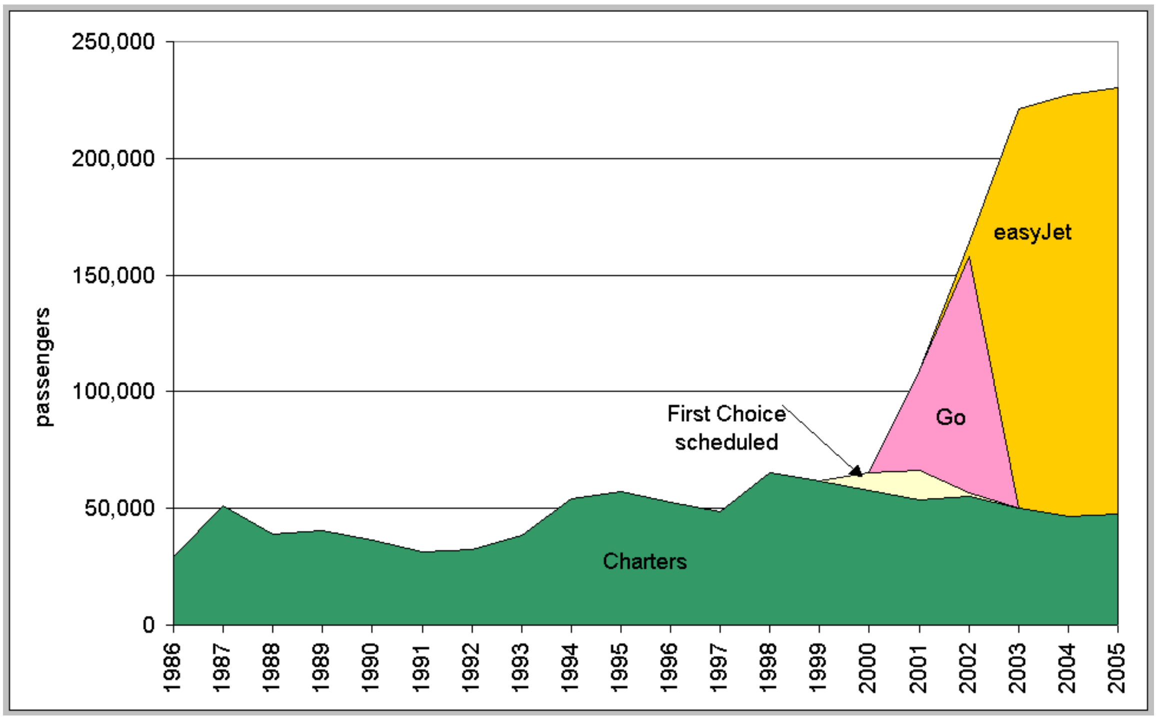
Source: CAA Airport Statistics

Figure 17: Traffic development on Bristol/Amsterdam, 1986 – 2005



Source: CAA Airport Statistics

Figure 18: Traffic development on Bristol/Malaga, 1986 – 2005



Source: CAA Airport Statistics

Edinburgh/Dublin

75. Until September 2001, the Edinburgh/Dublin route was a monopoly served by Aer Lingus. Despite this, traffic enjoyed substantial and sustained growth even before no-frills entry. Ryanair entered the route in August 2001 and was followed one month later by Go. The ensuing competition between the incumbent and the two no-frills entrants provided an enormous boost to traffic which more than doubled within a year and a half from no-frills entry.

76. However, following Go's exit from the market in 2002, traffic fell back almost to the pre-entry trend while the incumbent's traffic more then halved relative to the pre-entry level. Taken together, this suggests that a considerable amount of no-frills traffic on this route might have been diverted from the incumbent.

Bristol/Amsterdam

77. The Bristol/Amsterdam route was operated by KLM until easyJet's entry in December 2003. As in the case of the Edinburgh/Dublin route, traffic enjoyed strong growth even before no-frills entry – an average of 11.5% a year during the preceeding five-year period.

78. easyJet's entry caused an immediate upsurge in traffic which, in 2004, was almost twice the level it was in 2003. KLM's traffic has continued to grow after no-frills entry, albeit at a considerably slower rate. Although traffic contracted year-on-year in 2005, it still remains above the pre-entry trend line which points to traffic generation as the dominant effect although it is too soon to tell if this will be retained in the long term.

Bristol/Malaga

79. The Bristol/Malaga route was served only by charter carriers until 2001 although one of the charter carriers - First Choice - briefly provided some scheduled capacity in 2000 and 2001. Go entered the market in May 2001 and was replaced by easyJet in December 2002. The impact of the no-frills entry was immense: traffic had more than trebled by 2003. The charter carriers suffered some loss in patronage following no-frills entry, but on a much smaller scale than in the case of charter routes from London airports.

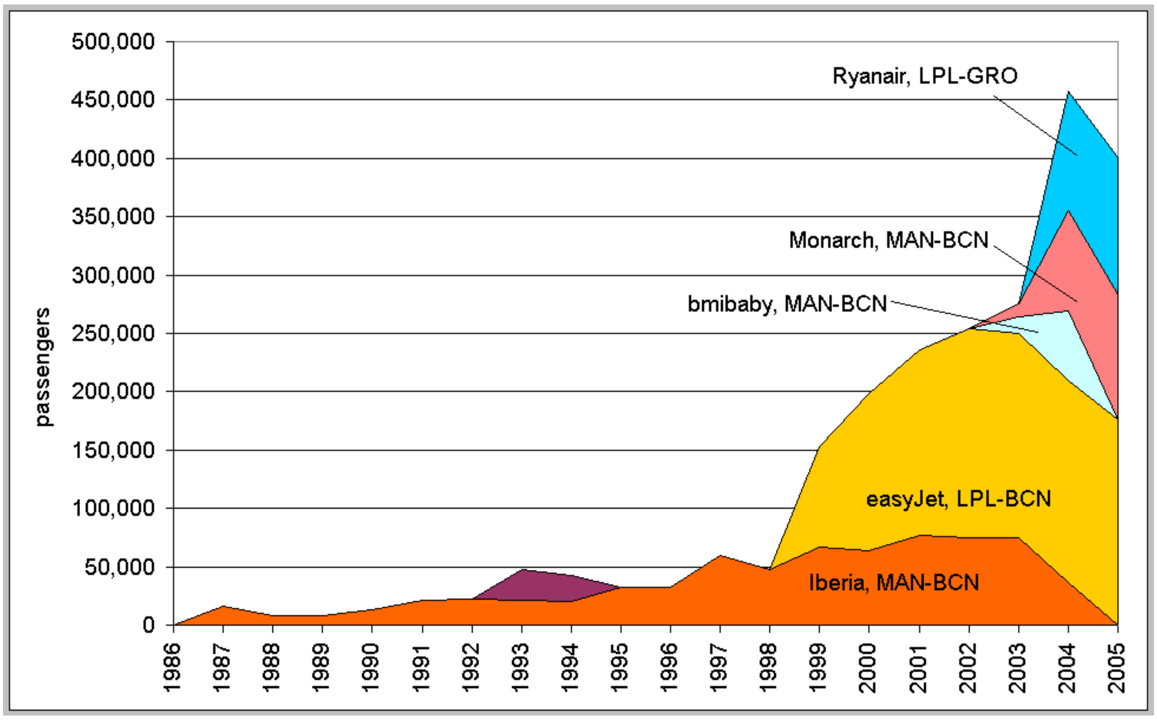
80. However, in the last two years the growth of traffic in this market has slowed down almost to the same rate at which traffic had grown before the no-frills entry. This suggests that the entry of no-frills carriers in this market has had a step change on traffic levels rather than a permanent change in the rate of growth.

Routes from airports with overlapping catchment areas

81. The analysis in this sub-section looks at three international routes from Liverpool and Manchester. These two airports share a considerable overlapping population catchment in the North West as they are only 31 miles apart. Despite this, there are a number of international destinations which are served from both airports.

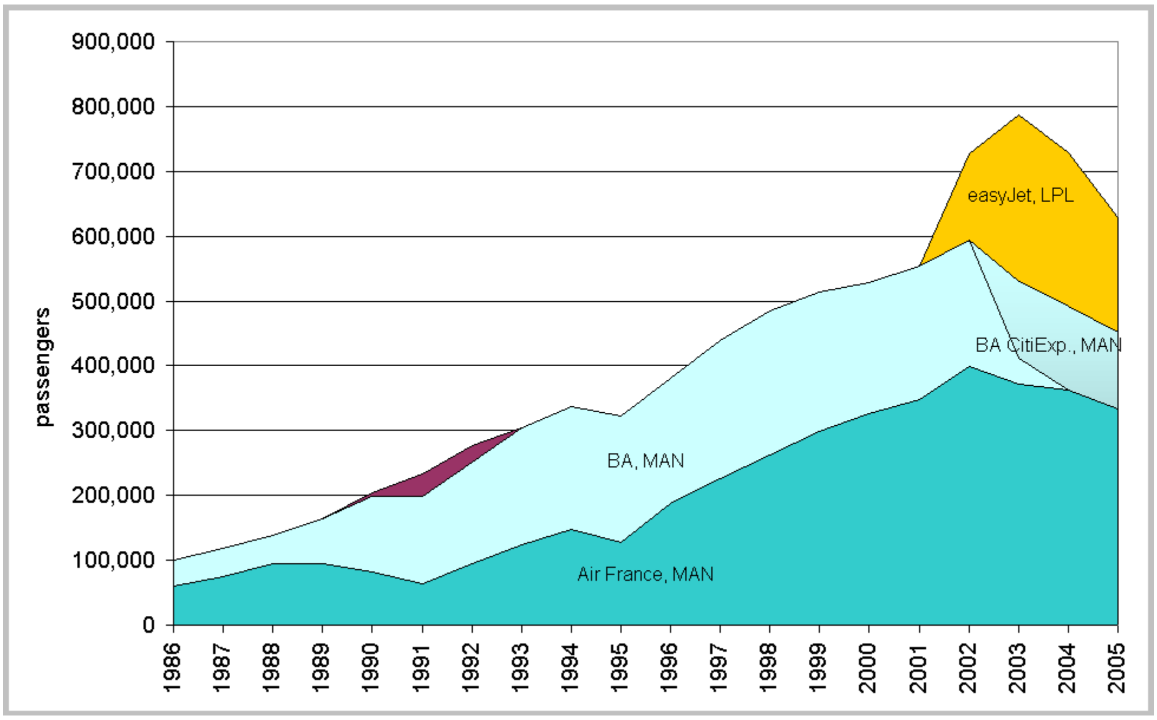
82. Figures 19 to 21 show traffic development on routes from Liverpool and Manchester to Barcelona, Paris and Malaga.

Figure 19: Traffic on Liverpool/Barcelona and Manchester/Barcelona, 1986 – 2005



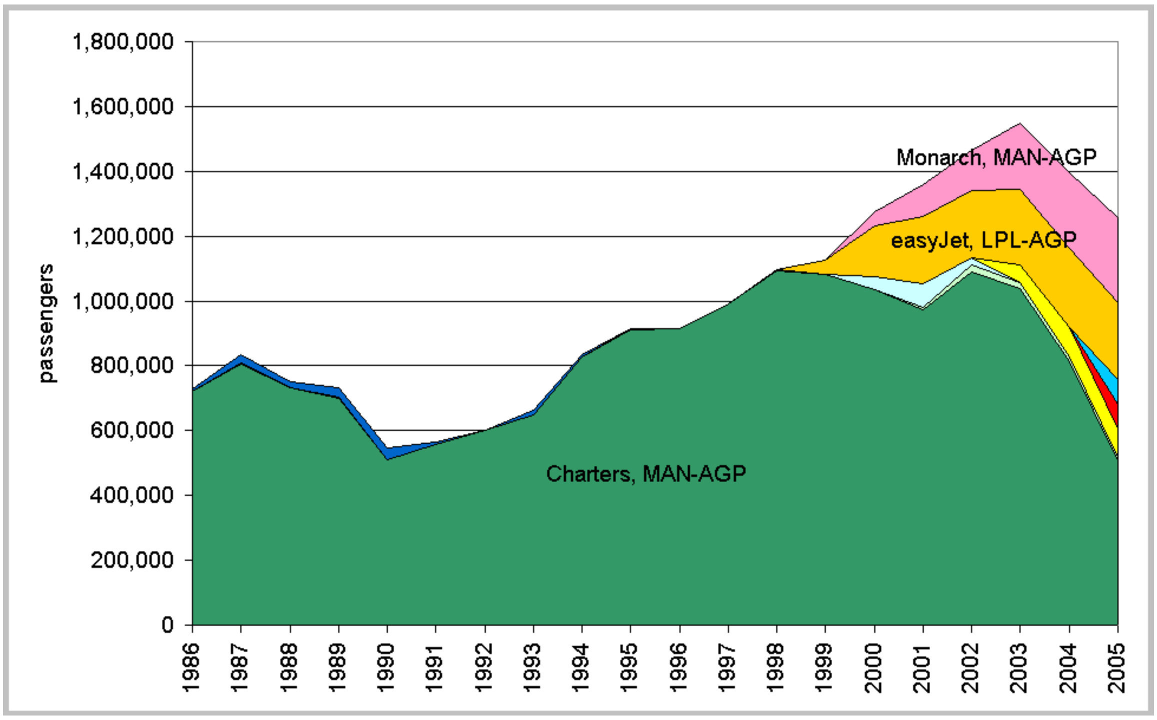
Source: CAA Airport Statistics

Figure 20: Traffic on Liverpool/Paris and Manchester/Paris, 1986 – 2005



Source: CAA Airport Statistics

Figure 21: Traffic on Liverpool/Malaga and Manchester/Malaga, 1986 – 2005



Source: CAA Airport Statistics

Wider Barcelona market

83. Before the advent of no-frills carriers the wider Barcelona market was served from the North West mainly by charter carriers. The charter carriers operated from Manchester mostly to the nearby towns of Reus and Gerona but there were also some limited charter services to Barcelona itself.

84. The only scheduled operator serving the Barcelona market from the North West was Iberia with one daily service from Manchester. easyJet started flights from Liverpool to Barcelona in January 1999. The traffic increased fourfold within four years of the entry - from 60,000 in 1999 to 260,000 in 2002 - with little visible impact on the traffic of Iberia and the charter carriers.

85. Monarch and bmibaby started scheduled services from Manchester in 2003. In 2004 Ryanair started services from Liverpool to Gerona. These more recent entries have also stimulated the overall demand, but there were several casualties too. Both bmibaby and Iberia suspended their services from Manchester in 2005 with the growth of easyJet's traffic at Liverpool being minimal, or at times negative since 2002.

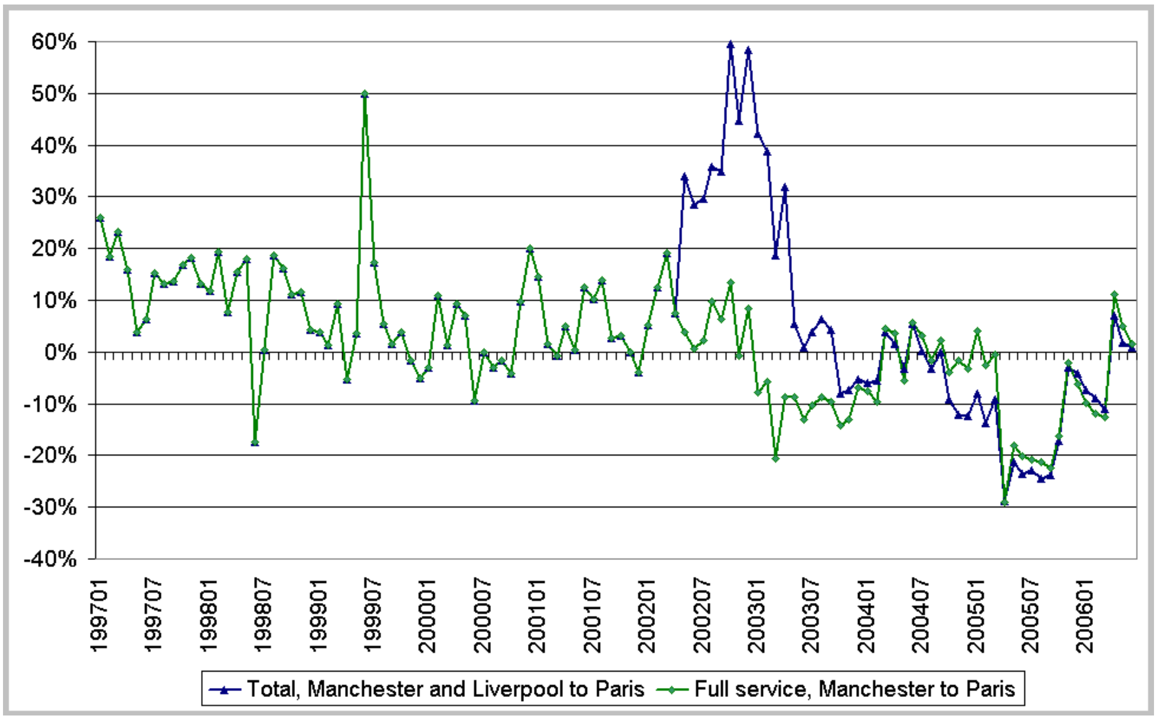
86. Also, the charters carried about 30% fewer passengers in 2005 than in 2002, although this may have been part of a more general trend of decline in demand for charter services due to change in consumer preferences rather than being caused by the competition from no-frills carriers alone.

Manchester and Liverpool to Paris

87. Unlike Barcelona, Paris was well served by scheduled carriers from Manchester before no-frills entry at Liverpool in 1999. The Manchester/Paris route was served by BA and Air France with eight daily services each in 1998. The traffic on the route had grown at an average of 7.2% a year during the ten-year period prior to easyJet's entry from Liverpool – which is faster than the growth of total traffic at Manchester airport.

88. The impact of easyJet's entry on the growth of both the total market and the traffic of full-service carriers can be seen in Figure 22 below:

Figure 22: Growth rates on Manchester and Liverpool to Paris, January 1997 – March 2006



Source: CAA Airport Statistics

89. The immediate impact of easyJet's entry from Liverpool was immense with over 40% total traffic growth in just 12 months, although both Air France and BA experienced a drop in passengers. However, the stimulation impact was short-lived: by mid-2003, the growth of the total traffic levelled off and eventually became negative.

Manchester/Malaga

90. Malaga was served predominantly by charter carriers from Manchester airport before easyJet started scheduled services from Liverpool in July 1999. This was one of the more popular charter routes which had enjoyed a period of substantial growth even before easyJet's entry. In 1998, for example, the charter traffic increased by 10% on the year before.

91. The impact of easyJet's entry at Liverpool appears to have arrested the growth of charter carriers at Manchester without generating much new traffic. The subsequent entry at Manchester by Monarch in 2000 exacerbated this trend and, from 2003 onwards, the route gives the increasing appearance of a saturated market.

Impact on Society (additional charts)

Figure 23: UK and foreign leisure passengers (UK – EU and domestic) choice of airline type, at main London airports

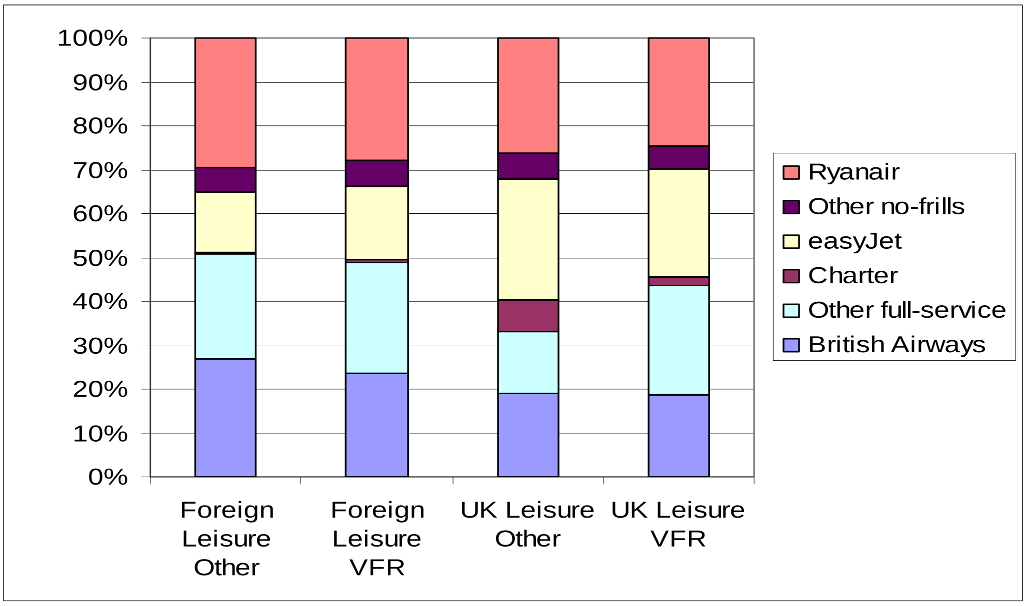


Figure 24: Trip length by type of passenger (UK – EU and domestic)

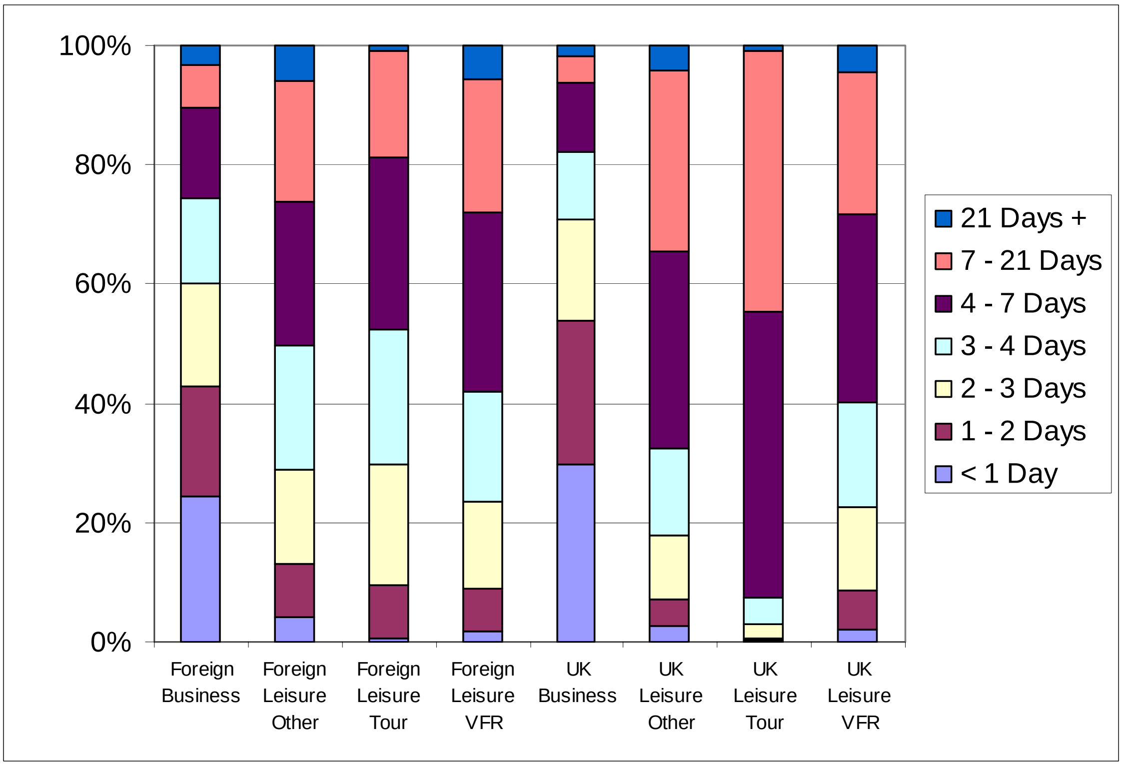


Figure 25: UK leisure passengers (UK-EU and domestic) trip length, by day of travel at main UK airports

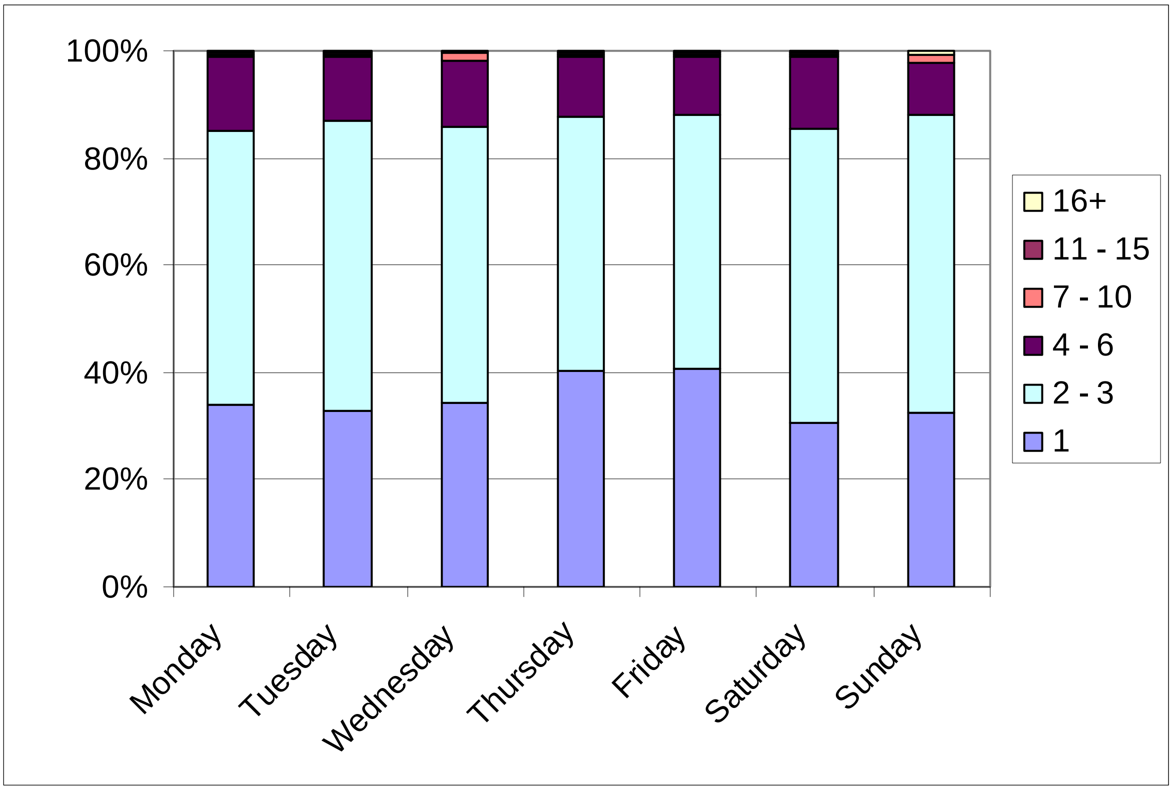


Figure 26: Choice of airline of UK and foreign business passengers (UK – EU and domestic) at main London airports

Figure 27: Trip length of UK leisure passengers (UK – EU and domestic) departing on a Friday, by airline at main UK airports