**Unite response to the Civil Aviation Authorities consultation - Preparing for a more competitive airport sector**

**1 Introduction**

1.1. **This response is submitted by Unite the Union, the UK's largest trade union with almost 2 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport, local government, education, the health service and not for profit sectors**.

1.2. Unite, is the largest trade union in the United Kingdom (UK) civil aviation industry, representing more than 80,000 members. In this response Unite will focus only on the wider effects of these processes on the workforce and the wider economy.

**2 The concept of competition between airports**

2.1. Unite is of the belief that the principle of competition requires there to be a selection of service providers which can meet the needs of the consumer. When the consumer is comparing travel choices studies by various organisations have concluded that the main concern is that the service they are after can be sourced by a particular provider. The second factor is concerned with a balance between the cost and the hassle involved in utilising that source of the required commodity.

2.2. In order to apply the concept of competition across the provision of airports, there needs to be a clear comparison between the services provided and the consumers ease of access. It is always technically possible to fly between any airport in the world and another on a regular scheduled or chartered air service. The question is how many transfers the passenger has to endure and the time it takes to get between origin and destination.

2.3. The American Comedian Steven Wright once said "*Everywhere is within walking distance if you have the time*." Sadly in today's modern world time is a valuable commodity; hence the desire to fly as opposed to use alternative surface based travel options or indeed walking.

2.4. Economic factors such as the deals that airport providers can negotiate with airlines and the level of connectivity with the travelling public determine where operators operate their services from. It is of no use to an airline to agree a deal with an airport if it does not attract customers to that service.

Airports in turn should be setting their prices in tune with the level of services available and the relative level of connected services.

2.5. In reality, however, airlines utilise their power to attract customers to demand preferential treatment as clearly illustrated by the actions of Ryanair in its negotiations with Stansted airport. Equally, airports capitalise on their dominant connectivity to the market to enhance their negotiation position.

2.6. From both sides the key element is reducing the overheads to enable it to provide the consumer with the most competitive package. It is in this area where Unite and other unions have their role in resisting practices that are contra to the health, safety and security of the employees that are ultimately affected by these decisions.

2.7. Unite believes the increase in competition will inevitably lead to a race to the bottom in terms of the salary and conditions employed in the industry. This is not just detrimental to the staff involved but raises significant concerns over the safety and treatment of the travelling public.

## 3 Competition in the London area

3.1. In the London area there are three airports owned by or previously owned by BAA. In addition to these are three independently owned airports, namely; London Luton, London Southend and London City airports. Although these airports have limited capacity and connectivity to provide any real competition at the moment to the long haul transfer traffic traversing the concourses of Heathrow, they are, however, in the case of London City in particular, beginning to offer real alternatives to the long distance passenger market. The services provided by the Heathrow, Gatwick, Stansted triangle for direct point to point short haul connectivity or services connecting with alternative European hubs are under threat from these alternative airports.

3.2. London Southend is at the moment very under utilized, due to the threat to its existence from the resurrected Thames estuary airport proposals and consequential delays with its rail connection to London, which is only now under construction. Southend airport growth is also restrained by it's proximity to London Stansted and London City airports reducing the number of air traffic movements as well as potential passenger numbers.

3.3. London City on the other hand has attracted a considerable growth in business passenger numbers, who are opting for a short flight to Schiphol or Charles De Gaul to catch connecting flights. Plans are now underway to expand this airport to include a second runway. The major restraint of this airport is its size, requiring the aircraft without an immediate turn around departure to wait at a neighbouring airport. It too is under treat, if Boris Johnson has his way with the construction of an estuary airport due to airspace limitations.

3.4. London Luton will soon have the desired runway length to handle larger longer distance aircraft enabling it to compete with Stansted and Gatwick for the medium to long haul market. Its lack of a direct rail connection is its Achilles' heel making it less attractive than its rivals to central London based traffic. None the less Luton's catchment area is extensive given this limitation.

## 4 Hub business

4.1. As can be seen from the past experiences of Montréal-Mirabel International Airport which was commissioned to replace the existing Dorval Airport (now Montréal-Pierre Elliott Trudeau International Airport) as the eastern air gateway to Canada, if two hub airports are in close proximity, one will inevitably fail. Mirabel International was far less popular with the travelling public than Dorval due to the reduced surface connectivity and remote location and hence the carriers reduced services to the airport to match demand, eventually resulting in Mirabel converting to a freight only airport. Gatwick has suffered a similar fate in its battle with Heathrow for hub traffic.

4.2. Heathrow is operating in a wider global market for such transfer hub business. The principal competition for Heathrow traffic is on main land Europe with routes via Frankfurt, Amsterdam Schiphol, Charles De Gaul, Madrid, and Munich. With the advent of longer haul aircraft availability, Heathrow now has also to contend with routes flying trans Atlantic via Dubai. These alternative hubs for transfer traffic are continuing to grab market share, as they are able to offer a far more reliable service, rarely hampered by delays. Within this market Heathrow, despite its capacity issues, has managed to maintain a leading role, but this position is currently very unstable, due to the lack of movement on its future expansion. This has not been an obstacle for Heathrow's competition, however, with new runways under construction at Frankfurt and in the planning stage at Madrid, Schipol and others. Further regulation of Heathrow's charges for this transfer business may not therefore be necessary, as its restricted capacity leaves it in an already cut throat battle for survival.

4.3. The new grouping of London Gatwick and London City under the US investment fund Global Infrastructure Partners (GIP) banner does now offer a potential alternative hub possibility for the future which could challenge Heathrow's dominance in this market, especially if planning permission is granted for a second runway or possibly a third runway and surface connectivity is improved. London City Airport is becoming far more popular with business passengers due to its connections with the alternative European hubs and proximity to Docklands and the city. BA has attempted to capitalise on this popularity with its BA001 A318 service, to New York, but it remains to be seen if in a time of a rapidly declining premium passenger market if this service will remain.

4.4. Clearly therefore in terms of hub traffic, the forced sale of Gatwick might in the long term result in the replacement of Heathrow with Gatwick but this would require considerable investment to improve capacity and surface transport links.

4.5. The potential for a replacement to Heathrow would be all too real, if GIP were allowed to purchase London Stansted with planning permission to develop the airport. On what is principally a green field site, with the addition of one or possibly two new parallel runways, Stansted would offer a far easier option in terms of compulsory purchase orders in order to expand. In those circumstances given the capacity problems with Heathrow, there may well be some degree of limited competition for a while, but again in the nature of having a hub would result in there being only one winner.

## 5 Point to point competition

5.1. Heathrow does have a substantial advantage in the area of direct point to point travel, as it is able to offer a wider range of longer haul direct services due to the benefits of the volumes of transferring passengers making frequent services to some destinations viable. Heathrow is limited, however, in its ability to fully capitalise on this connectivity to the rest of the UK, due to a lack of available slot pairs and government and legal restrictions on expansion. Heathrow now only has capacity to service flights to six UK destinations which when compared to Schiphol who have flights connecting to over twenty UK destinations makes it easy to see where the majority of the UK regional traffic is going.

5.2. Despite the dominance of Heathrow, in terms of services offered, there is clearly ongoing competition between the remaining London airports for passengers. Whilst airlines may complain over the cost of utilising the facilities at these airports, they can still command considerable leverage in forcing these airports to offer them a competitive agreement. A clear case in point can be seen looking at the agreement reached between Stansted and Ryanair. In their negotiations it was widely reported in the trade press that the airline was asking for free landing privileges in return for higher passenger numbers.

5.3. The major restriction on free competition will always be the physical capabilities of the airports and the limitations on airports to connect to the wider surface public transport network as illustrated earlier in the case of London Luton. Competition between airports on cost is far less of a deciding factor as the airport who can offer the greatest customer numbers or the best customer experience in completing their journey.

## 6 New Capacity

6.1. One only needs to examine the effect of London City airport had on London Southend to visualise the impact of additional capacity UK airport capacity. Growth in the UK aviation industry has severely limited the airports available funding, given that the industry is required to fund improvements out of their own profits without government subsidies. As BAA will no longer hold all the major cards with respect to available capacity, in the London area, Unite believes that financial limitations on their charges are no longer required.

6.2. Airlines utilising Heathrow have already obtained considerable assets in terms of available slot pairs which have been traded for in excess of £10 million each. If Heathrow management raise the fees they inevitably run the risk of disturbing the already unstable position they are in, in terms of reliability. As a result the removal of price capping should have little if any effect on the costs associated with the use of this airport given the level of international competition for this customer base and may provide the additional stimulus needed to fund the construction of the third runway and supporting infrastructure needed for the airports future as the UK hub.

6.3. If the GIP group purchase a sizable stake in London Stansted or this airport remains in the hands of BAA, then there may be good reason for price caps to remain at Stansted and possibly Gatwick. If these two airports both fall under the same corporate umbrella, all the competition commission would have achieved in the South East would be the swapping of one virtual monopoly with another. As such if Stansted is sold it would need to find an owner with no links to any of the existing airport groups.

6.4. This would be in line with the outcomes reached when examining the designation of Manchester and Stansted in 2007.

6.5. Unite believes that the suggestions submitted to the London Assembly regarding the possible construction of an airport in the Thames are unworkable given the number of barriers that are in the way of such a scheme. None the less if all of these substantial issues could be resolved and if funding could be obtained, such a facility would again considerably undermine the very ethos of healthy options and choice for the many different types of passenger, not just in the South East. The impact of the airport would clearly result in the loss of the hub business at Heathrow if successful and would disrupt air traffic operations at London City and Stansted and would lead to the closure of London Southend. As such any such facility, if it is ever constructed would need to be heavily regulated.

**7 The effect of competition on the industry**

7.1. Unite is of the opinion that enhanced competition is bad news for the workforce and the travelling public. Whilst the price of a ticket may fall if increased pressure is brought to bear on carriers, this saving will often come at the expense of quality.

7.2. We are already seeing an increase in the number of untrained and often poorly paid agency workers and agents who cut corners to enable them to meet budgetary restraints. Some low cost airlines are deliberately parking aircraft away from stands so that they can avoid the costs. It is not uncommon for aircraft to be refuelled while the engines are running and for crew to be found unloading or loading luggage and freight on to a flight next to an engine which is running on idle just to provide electrical energy to the cabin.

7.3. Reductions in numbers employed to save costs also results in a higher incident of delays and personal injuries by staff trying to maintain the level of service expected by airlines. This will cause greater incidents of such working practices as the utilisation of zero hours contracts, agency staff and staff working on salaries related to performance targets with very little controls over the achievability of these goals. Such practices instil into the industry a less than safety conscious attitude which in this industry is something that should be of paramount importance.

7.4. A race to make flights cheaper also promotes an environment where every asset is utilised to the highest degree possible before it is replaced, leading to a lack of investment into cleaner, more efficient and quieter alternatives. A clear example of this is the number of Airbus A380 orders that were either cancelled or put on hold during the current financial crisis. Although in the long term, the volume of emissions and hence costs would have decreased, the initial investment needed could not be found. Unite fears that the continued push for greater competition is therefore not only ethically, and morally unsound in this industry, it could also be environmentally unsound and against the interests of the travelling public.

7.5. Considerable environmental savings are possible at airports but the majority require significant financial investment. The capping of charges therefore effectively removed this avenue for funding.

## 8 In Conclusion

8.1. Unite would like to see a quality service provided for all passengers, with the industry's workforce paid a decent wage for a day's work. This industry provides the UK with access to the world and we need to promote it as a place which is open for quality business. At the same time Unite would also like to see the most technically advanced methodologies being employed to minimise the environmental global impact of aviation. Unite does not agree that this goal will ever be achieved by promoting and enhancing competition and placing caps of the charges levied by the airports.

8.2. Unite believe a Thames estuary airport is nonsense, and if we ever find the cash to construct it, it would only serve to monopolise the South East airport infrastructure, and undermine the very ethos of competition.

8.3. Unite also supports the expansion of Heathrow as a priority for government going forward. The arguments against this scheme are flawed and misrepresentative of the economic need to maintain Heathrow's status as the worlds No.1 international passenger hub. Only this coupled with commitment by airport operators, Passenger Transport Companies, and Government will provide the 'level playing field' required for "fair levels" of competition with the sector.

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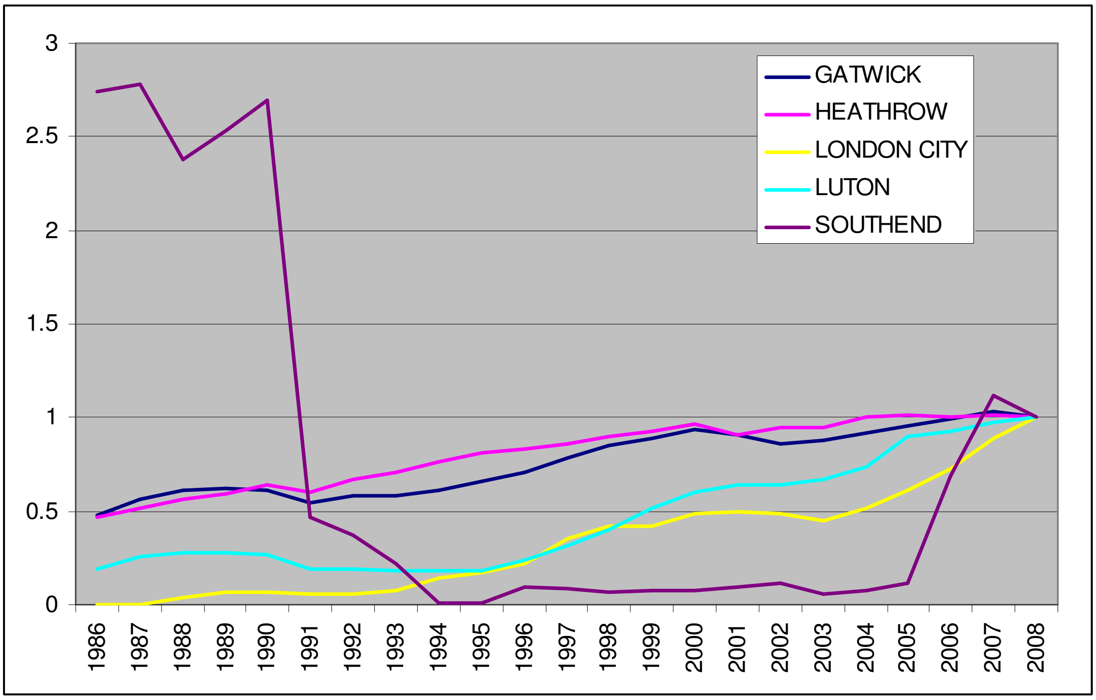
**Passenger Numbers utilising the London Airports**
**– path to current capacity (1986 to 2008)**




| | 1988 | 1993 | 1998 | 2003 | 2008 |
|---|---|---|---|---|---|
| GATWICK | 20,742,817 | 20,053,945 | 29,030,680 | 29,893,286 | 34,162,014 |
| HEATHROW | 37,509,104 | 47,601,223 | 60,356,414 | 63,208,042 | 66,906,954 |
| LONDON CITY | 132,981 | 243,986 | 1,358,044 | 1,470,576 | 3,260,225 |
| LUTON | 2,796,444 | 1,844,471 | 4,110,499 | 6,785,670 | 10,173,902 |
| SOUTHEND | 105,005 | 9,697 | 3,119 | 2,702 | 44,075 |

Source CAA