



Unite response to the Competition Commission Review of their decision regarding the future of BAA Airports.

1 Summary

- 1.1 This response is submitted by Unite the Union, the UK's largest trade union with over 1.3 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 and local government, education, health and not for profit sectors. The Civil Air Transport (CAT) membership of Unite is currently the largest representative group of workers employed within the aviation industry.
- 1.2 The union's current membership includes around 80,000 members working within Civil Aviation and in addition, Unite represents 52,000 members in the aerospace industry. Unite also represents 20,000 members in bulk freight transport who will be directly affected by these proposals and another 11,000 members who work as managers within Royal Mail and other organisations in the postal sector.
- 1.3 Unite believes that there has been a material change of circumstances since the preparation of the previous report in March 2009 requiring BAA Ltd (BAA) to sell three airports. London Gatwick has now been sold to a consortium led by Global Infrastructure Partners but, as predicted by Unite and others, there has not been any discernable change to the level of competition that had been suggested. Instead of protecting the financial stability of the airports in the group, Gatwick now stands in a far more precarious position at a time of recession.
- 1.4 2009/10 has been a very difficult period in the aviation industry in Europe, with the combination of reduced passenger numbers due to the recession and the Icelandic ash cloud closure of airspace. Throughout, the advantage of being in a larger group has been seen as the way to go in order to pool resources and make savings by eliminating duplication of work. The move to break up BAA could not have come at a more inopportune time therefore resulting in the group selling the airport at far less than its true value.
- 1.5 Unite believes that the Competition Commission was incorrect in its original assessment of the potential for competition between the airports in the London area, which has been confirmed by the lack of any significant material change in behaviour of the current owners of

Gatwick compared to that of BAA. Unite believes that customer behaviour is governed primarily by convenience not necessarily by cost even in today's economic climate.

- 1.6 In addition the decision by the ConDem Coalition to block airport expansion in the south east in the face of an industry wide and global economic crisis has only served to further concentrate flights toward the available slots at the busier airports. This clearly favours Heathrow over the competition placing the airport in an even more dominant position as long as the airport can withstand the onslaught from other European hub airports.
- 1.7 At the same time employees at Gatwick now face pressure on their terms and conditions which narrowly avoided industrial unrest. Contractors have been put under considerable pressure to deliver their services for less which has caused a knock on effect to these staff as well. In one instance this race to the bottom has resulted in the quality of service provided being so bad that the airline has moved its business elsewhere.

2 The Economic Climate

- 2.1 Although the new owners claim that work is underway to transform Gatwick with investment of nearly £1 billion to substantially improve our passengers' experience, this so far has not stopped the decline in footfall through their door. Worldwide airport passenger numbers dropped by 1.8% in 2009 to 4.796 billion, from a high of 4.882 billion in 2008. Europe and North America registered significant decreases of 5.4% and 5.2% respectively. Worldwide domestic traffic was flat (-0.2%) while international traffic dropped 3.9% and aircraft movements decreased by 5.1% to 74.1 million.
- 2.2 This year has, until recently, seen the decline continue. Thankfully British Airways figures from November suggest traffic, measured in Revenue Passenger Kilometres, rose by 3.5 per cent. Passenger capacity, measured in Available Seat Kilometres, was up 5.1 per cent on November 2009. Traffic comprised a 4.5 per cent increase in premium traffic and a 3.2 per cent increase in non-premium traffic on this airline.
- 2.3 There are 39 miles between Heathrow and Gatwick by road and 72 miles between Gatwick and Stansted resulting in a significant additional road journey in order to utilise the services of a rival airport. Consequently on the point to point flights each airport caters primarily for its own local community and those in other areas who cannot obtain a flight to their desired destination from any airport closer to home.
- 2.4 Heathrow on the other hand provides frequent services to destinations thus enabling the ability of passengers to interchange at the airport and not be faced with a lengthy stop over. Consequently due to the

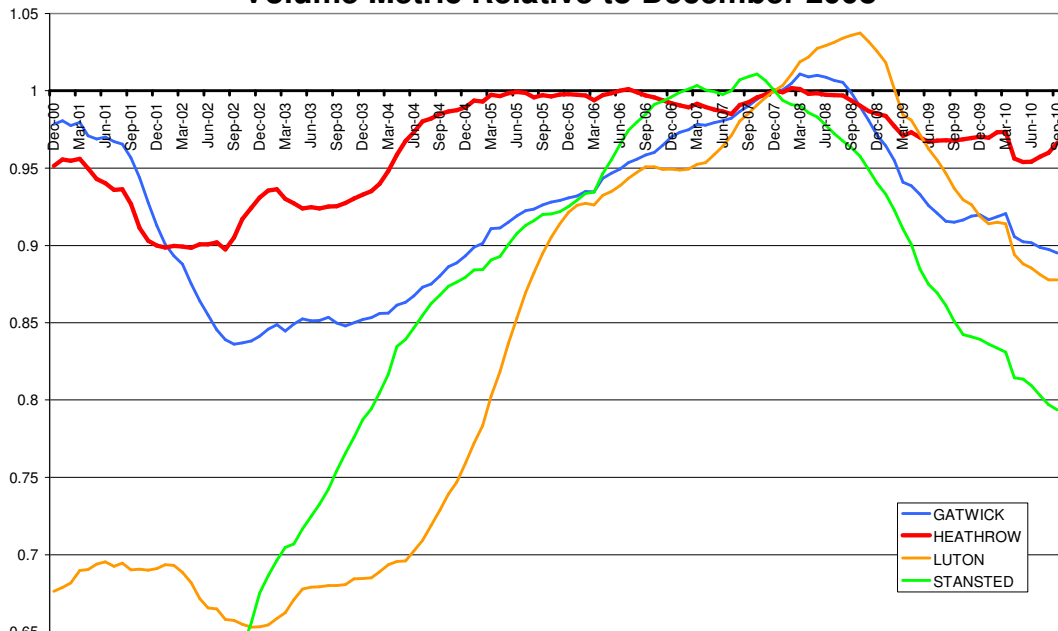
throughput of these transferring passengers, the hub can attract enough traffic to make frequent services financially viable which other airports in the UK would find difficult to achieve. This combined with the capacity issues, and high levels of demand to fill slot pairs, is why Heathrow has been so resilient to declines in the past.

- 2.5 When the decision of the Competition Commission was given the UK had only just started to feel the effects of the recession. In the civil aviation industry, however, many airlines were struggling to survive and some subsequently went bust. This was principally due to the crisis over high fuel costs followed shortly after by the decline in premium, and then economy, passengers flying.
- 2.6 As a result of this economic crisis Stansted, which up until around October 2007 had been expanding rapidly, suddenly stalled and started a rapid decline, from which it has yet to recover. Since that time Stansted has lost over 16.8% of its customers over the last two years, despite the presence of Ryanair, who have gone from strength to strength. With such a rapid decline in passengers using the airport, it is only the strength that comes of being part of a large group, which has maintained the viability of the airport avoiding, to a very large degree, the need for wide spread job losses.
- 2.7 In Scotland, Edinburgh is now in a very dominant position given its new surface connectivity to the city centre and beyond, due to open in 2011 and the presence of the Scottish Parliament. Edinburgh airport is one of the only airports in the UK which has seen passenger numbers grow, all be it by just 0.47%. By contrast both Glasgow and Aberdeen have declined by 17.9% and 12.5% respectively since 2008 in terms of passenger numbers. This illustrates the point made in Unite's previous submission, that these airports cannot be viewed as being in competition with each other due to the distances between them. The relative position of Glasgow airport in particular, which is to the east of the city, requires potential passengers from the region to navigate their way around the heavily congested road network. Now that its rail link has been blocked, there is little prospect of it being a threat to the dominance of Edinburgh.
- 2.8 Gatwick has for years mirrored the growth of Heathrow as it has tended to pick up the capacity which could not fit into the nation's hub. As a result of its position in the market, Gatwick tends to take a bigger hit when times are difficult as airlines jump to Heathrow if space becomes available. Gatwick does not have anywhere near the same capacity issues faced by Heathrow, it can also grow quickly. Since the decision and the subsequent sale, the airport has not changed its role as second fiddle to Heathrow, despite claims that the change of ownership may also change the level of competition in the London area.

2.9 To illustrate this earlier point, the below graph shows the relative growth and decline of each of the four main London airports, relative to December 2007.

2.10 As stated in our original submission to the Competition Commission consultation, Unite believes that each of these transport facilities should be viewed in the same way as a train station on a network. A passenger is not going to journey forty miles or more to another facility just to catch transport to the same destination if they can get on at a local facility for around the same price. The only time a passenger will make such a journey would be if the service they need is not available from their local facility or if there is a substantial price differential. Given the nature of the aviation business such price differentials do not exist without some compromise in terms of quality of service.

Relative Growth of the Four Main London Airports by Passenger Volume Metric Relative to December 2008



Source:- CAA

2.11 A race to the bottom, does nothing but place a strain on the employees job security and terms and conditions as more and more companies farm out the services provided to agencies and even zero hour contract workers. As these staff often do not receive adequate health and safety training, this leaves the door open for accidents to happen. When dealing with the safety of up to 525 passengers on a single aircraft Unite believe this is unacceptable.

3 Competition in Aviation

- 3.1 Unite believes that in terms of competition in the London area for point to point traffic, the key factor is the availability of flights to the destination to which you wish to travel. If a direct route is not possible via a local airport the passenger will look at the number of connecting flights they will need and compare that with the difficulty of getting to an airport which can provide a direct flight.
- 3.2 Consequently airlines will see if a route is sustainable from that local airport and how frequently they can fly on that route and still make a profit. The key determining factors that influence that decision are the level of charges levied by the airport and the number of customers that can be attracted to that airport to catch that flight. If the airline wants to maximise the potential of the flight they need an airport which is easily accessible, by air or surface transport. If they want to maximise the footfall for such services the airline will want to operate out of the busiest airport available in the area or provide links to at least one hub airport.
- 3.3 As the price of slot parts is determined to a very large degree by the availability, some airlines make their money by avoiding these main airports which are clearly more expensive. The potential to expand the airports in the South East has been deemed too politically damaging to proceed by the new Con Dem Coalition principally due to the backlash from local residents. An aircraft at cruise altitude uses around 10 times less fuel in one minute than it does while taxiing, meaning that for every minute it spends on the ground it could travel 90 miles in the air on the same volume of fuel¹. Arguments over environmental improvements, by building a larger airport and reducing the need for excessive queuing and stacking, limiting growth by environmental impact appear to have gone out of the window in favour of gaining a few extra votes from environmental extremists who do not understand the full picture.
- 3.4 To create a level playing field therefore and encourage real competition in civil aviation you need to have airports of equal standing in terms of facilities, location to equal size local populations and a range of flights and frequencies mirrored at each facility. This is, of course, an impossibility and, even if it was not, it would be against the public interest due to the increase in greenhouse gas pollution that would result.
- 3.5 In terms of real competition in aviation, you need to look at a far greater geographical area. There is very little difference in flight time from any London airport and its destination. The determining factor therefore has to be the surface connectivity and availability of onward travel without a long stop over.

¹ See Appendix 1 below.

- 3.6 The result of the above is that competition is more a question of which hub airport should be used. Heathrow only provides space for domestic flights to six destinations in the UK. Amsterdam Schipol provides space to fly to over 25 UK regional airports and Paris Charles De Gaul, has flights to 13 destinations in the UK.
- 3.7 Unite does not believe that retaining Stansted under the ownership of BAA or forcing through the sale will fundamentally change the customer dynamic or passenger footfall. Such a forced sale will cause the loss of the financial stability and other benefits associated with working as part of the world's number one airport group in terms of revenue. Ferrovial suffered a 12.1% loss in 2009, despite having in its portfolio the world's busiest international hub airport. This decline resulted in a drop from a 16.5% operating margin in 2008 to a 6.2% operating margin loss in 2009.
- 3.8 Should the sale of Stansted take place it is possible that the airport might not be in a position to financially survive. As a member of the BAA group Stansted is able to offer large discounted fees to the airlines to keep the flights. As an independent, Stansted may not be in a position to offer such a deal, resulting in an increase in fares and decrease in passengers.
- 3.9 Over 70% of passengers on flights from Manchester to Heathrow catch connecting flights to their final destination. With Heathrow having its busiest month ever in October 2010, BAA has clearly felt that they are in such a dominant position, that they can justify an increase in their UK domestic passenger charge by up to £7 per passenger from April. Any change in ownership is unlikely to change that position for the benefit of the travelling public.

4 Tax Burden

- 4.1 Unite believes central Government decisions on aviation tax policy can seriously affect the level of competition in the European market and to a degree the level of competition faced in the London area. With increases of 55% on some routes² the government appears to be attempting to turn aviation away from the masses back to the moneyed elite especially in seats outside economy. Such a move opens the door for a significant saving by the consumer by avoiding the UK airports altogether and if Per Plane taxation comes in, the level of transfer passengers using Heathrow.
- 4.2 In 2008 the Netherlands introduced an aviation tax aimed at raising €350 million per annum for the government coffers. As a result of this tax being imposed, passengers voted with their feet and utilised their closest airport over the border in Germany and Belgium. Tourist traffic

² See appendix 2

faltered and as a result the total effect on the economy was a loss of €1.2 to €1.3 billion³. In addition some passengers discovered that the airports across the border were easier to get to and offered more services and hence never returned. As seen by the comparative data in Appendix 4 this resulted in the footfall at Amsterdam Schipol being significantly greater than that felt elsewhere in the European hub market.

- 4.3 In the UK we have a natural defence against most of the potential cross border migration to neighbours airports in the form of the North Sea and English Channel. The exception to this being those passengers who would normally fly from one of Belfast's two airports and those who fly from Dublin. None the less there is still one land based route in the form of the Eurostar. With tickets costing £65 return to Paris and tax on long haul to zone D costing £85 in economy per person and £170 in economy plus, a significant saving can be made by using Paris Charles De Gaul airport for long haul journeys starting from London.
- 4.4 In addition, if passengers break up their journey and go land side on arrival at a rival European hub and then continue their journey from the rival hub on a separate ticket they only have to pay £12 in economy or £24 in all other classes in Air Passenger Duty. This can therefore open up Frankfurt, Amsterdam Schipol, Madrid, Munich and any other airports in Europe into competition as rivals to the London airports as competition for the long haul business.
- 4.5 As a result of the potential savings Luton, Stansted and Gatwick could capitalise on the increased traffic for flights to these hubs, to the detriment of the Treasury and Heathrow. Such a move would also be not very environmentally friendly as it results in an additional take off and landing burning additional fuel and therefore creating more greenhouse gasses.
- 4.6 If the ConDem Coalition does introduce a Per Plane tax as a replacement to APD, those who fly via a hub airport will for the first time have to face the prospect of an additional charge to use a British hub airport when all European hubs currently do not charge. This will place the UK at a significant disadvantage.
- 4.7 The recently published Calman Commission report has suggested that there would be considerable benefits in transferring a number of government taxes to Scottish Parliamentary control with a subsequent decrease in the grant. One of these taxes was that of Air Passenger

³ Source: SEO Economic Research conducted a study commissioned by the Dutch Association of Travel Agents ANVR on the effects of the Dutch ticket tax. The study found total financial damage to the Dutch Economy was EUR1.2-1.3 billion, EUR90 million for airports, EUR940 million for airlines operating from Dutch airports, lost tourism income of EUR 83 million and Dutch travel agencies and tour operators lost revenue of EUR120 million-300 million

Duty. This therefore raises the potential for Scotland to abolish APD and Per Plane tax to attract passengers and more importantly tourists. Should such a move occur, the Scottish airports will enter into competition with those in England, Wales and Northern Ireland.

- 4.8 So far the disruption caused to employees at Gatwick has not lead to any redundancies among the staff but management only narrowly avoided industrial action over their plans to introduce performance related pay increases. Contracts have all been put under review with considerable pressure to cut costs. The contractors in turn have attempted to freeze salaries and reduce benefits. This race to the bottom effects quality of service. One airline at Gatwick has stopped using one of the ground handling companies simply because the quality of the service has been so poor.
- 4.9 Unite believes that the decision by the Competition Commission to force the sale of Gatwick and Stansted was ill-conceived, particularly at that time. If there were any beneficiaries from the sale of Gatwick, it was the new airport operator that has picked up the ownership of a major global airport for far less than its true value. The new owner has been carrying out a programme to reduce their overheads, often to the detriment of quality.
- 4.10 Any benefit to the travelling public of these cuts has gone unnoticed as the competition for passengers has been moving toward the low cost sector as clearly illustrated by the financial returns of easyJet and Ryanair etc. The principle losers were the staff employed at Gatwick whose employment status was thrown into turmoil and put at risk.

5 Conclusion

- 5.1 Unite does not believe that further forced sales of airports be they in the London area or elsewhere would be in the public's interest as it would be unlikely to create an environment where competition will flourish. If anything the continuation of such a forced sale may lead to a reduction in customer choice and a detrimental effect on UK business and the quality of employment in this industry.
- 5.2 Unite believes that in the aviation industry, examining the provision of competition between airports needs to be viewed not on a regional scale in the London area or on the Scotland central belt but more on the basis of a European marketplace.

Brian Boyd
National Officer
Unite the union
35 King Street
Covent Garden
London
WC2E 8JG

Brendan Gold
National Secretary
Unite the union
128 Theobalds Road
Holborn
London
WC1X 8TN

For further information please contact Colin Potter, Research Officer in the Unite the union Research Department on 020 7611 2591, colin.potter@unitetheunion.org

Appendix 1 – Fuel burn rates in Boeing aircraft in terms of lbs of Jet A1 fuel burnt per minute.

| Condition | 717 | 727 | 737 | 747 | 757 | 767 | 777 |
|------------------------------|-----|-----|-----|-----|-----|-----|-----|
| Taxi* (lb per minute) | 25 | 60 | 25 | 100 | 40 | 50 | 60 |
| In Cruise (lb per minute) | 4 | 5 | 4 | 11 | 4 | 4 | 9 |

Source Boeing

* assumes all engines running.

Appendix 2 - Air Passenger Duty Rate History

In 1994 APD rate was £5 for Domestic and European destinations and £10 to all other destinations.

In 1997 APD rates were doubled

In 2004 APD the rates were split depending on the class of ticket purchased as well as destination. The APD rate for a standard ticket then applied to any seat above Economy or Economy Plus.

From 2009 the standard rate was applied to those purchasing Economy plus tickets

Current Air Passenger Duty Rates

| Band | Reduced Rate | | Standard Rate | | Applicable Distances |
|--------|--------------|---------|---------------|---------|-------------------------------|
| | 2009-10 | 2010-11 | 2009-10 | 2010-11 | |
| Band A | £11 | £12 | £22 | £24 | 0–2,000 miles from London |
| Band B | £45 | £60 | £90 | £120 | 2,001–4,000 miles from London |
| Band C | £50 | £75 | £100 | £150 | 4,001–6,000 miles from London |
| Band D | £55 | £85 | £110 | £170 | over 6,000 miles from London |

Abnormalities.

Russia is the only country split into two zones East and West of the Ural Mountains.

As Hawaii is part of the United States and the capital of the United States is Washington DC which is under 4,000 from London, Hawaii is in Zone B while the Caribbean islands capital cities are all more than 4,000 miles away and hence fall under Band C.

India is Band C but Pakistan is Band B

Appendix 3 - Aviation Taxation in Europe

| Country | VAT | Airport and other taxes | Tax | Comments |
|-------------|-------------------|---------------------------------|--|---|
| Austria | - | - | €8.00 to €40 | Two tier APD style tax to be introduced from 01/01/2011 |
| Belgium | - | - | - | Was proposed but was dropped in 2009 prior to introduction would have been €10 domestic and €50 international |
| Denmark | - | Kr 67.26 per tonne of aircraft | Kr 22.92 to Kr 87.48 per passenger | |
| Finland | - | - | - | No plans to introduce tax |
| France | 19% on domestic | €7.04 Solidarity | €1 to €4 on economy €10 to €40 on all other seats | Tax is only in two bands domestic or international |
| Germany | 6% On domestic | - | €8 to €45 | Banded APD system similar to UK to commence 01/01/2011. VAT is also charged on rail tickets |
| Greece | - | €2.50 to €22 per passenger | - | |
| Italy | 6% | - | - | VAT is also charged on rail tickets |
| Ireland | - | €12 and €22 per passenger | €2 or €10 | < 300 km from Dublin >= 300 km from Dublin |
| Malta | - | €16.76 on international flights | - | |
| Netherlands | - | - | - | Had two zone APD until from 2008 to 2009 aimed at raising €350 million. Caused the country an estimated €1.2 to €1.3 billion loss. |
| Portugal | - | - | - | } No Plans to Introduce a Tax |
| Sweden | - | - | - | |
| Switzerland | - | - | - | |
| Spain | - | - | - | |
| | | | | } Spain offered a discount to airlines to bring more flights into the country to help the tourist industry |

In the UK VAT is not charged on any form of transport ticket.

Appendix 4 – The relative performance of airports

**Percentage Decline of European Aviation
2009**

UK

| | |
|-----------------------------|--------|
| East Midlands International | -17.1% |
| London City | -14.2% |
| Belfast International | -13.6% |
| Manchester | -11.8% |
| Glasgow | -11.7% |
| Stansted | -10.7% |
| Luton | -10.4% |
| Leeds/Bradford | -10.4% |
| Bristol | -10.0% |
| Aberdeen | -9.3% |
| Newcastle | -9.0% |
| Liverpool | -8.4% |
| Birmingham | -5.4% |
| Gatwick | -5.3% |
| Heathrow | -1.5% |

Netherlands

| | |
|--------------------|-------|
| Amsterdam Schiphol | -8.1% |
|--------------------|-------|

Spain

| | |
|--------|-------|
| Madrid | -5.1% |
|--------|-------|

France

| | |
|-----------------|-------|
| Charles De Gaul | -4.9% |
| Paris – Orly | -4.1% |

Germany

| | |
|------------------|-------|
| Frankfurt – Main | -4.7% |
|------------------|-------|

Italy

| | |
|------|-------|
| Rome | -4.0% |
|------|-------|

**Percentage Increase in International Aviation
2009**

China

| | |
|--------------------------|-------|
| Chengdu | 31.3% |
| Nanjing | 22.0% |
| Xiamen | 20.7% |
| Kunming | 19.7% |
| Hangzhou | 17.8% |
| Beijing | 16.8% |
| Shenzhen | 14.4% |
| Shanghai - Pudong | 13.0% |
| Guangzhou | 10.8% |
| Shanghai - International | 9.6% |

Brazil

| | |
|-----------------------|-------|
| Brazilia | 16.1% |
| Rio de Janeiro | 13.2% |
| Sao Paulo - Guarulhos | 6.4% |

Indonesia

| | |
|---------|-------|
| Jakarta | 15.2% |
|---------|-------|

South Korea

| | |
|-------|------|
| Jeju | 9.6% |
| Seoul | 7.7% |

United Arab Emirates

| | |
|-------|------|
| Dubai | 9.2% |
|-------|------|

Philippines

| | |
|---------|------|
| Manilla | 8.7% |
|---------|------|

India

| | |
|--------|------|
| Delhi | 8.6% |
| Mumbai | 1.9% |