

Aberdeen Airport – a market monitoring report

CAP 1403



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Late in 2015 the CMA requested the CAA's views on updated information made available by the Aberdeen airport's remedy, in order to input to its evaluation of the remedies resulting of the CC's Market Investigation of BAA airports. We prepared this report to feed into that evaluation and decided to publish it for reasons of transparency and as a way to raise awareness in the airport community to the existence of these information remedies. Some of the confidential information received from Aberdeen has been redacted from this published version.

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Chapter 1

Background and summary

- 1.1 As part of its market investigation of BAA airports completed in 2009, the Competition Commission (CC) concluded that the situation of Aberdeen airport constituted an adverse effect on competition (AEC).
- 1.2 This conclusion resulted from Aberdeen airport's comparatively isolated geographical position, combined with other general features that deterred entry.
- 1.3 As a remedy, the CC decided that BAA should provide undertakings in relation to the publication of information and consultation, including the publication of audited accounts and a "segmental analysis" each year.
- 1.4 Since 2011, when the undertakings were confirmed, the information provided to the CC and latterly the CMA has been passed on to the CAA for our review. In October 2014, the Competition and Markets Authority (CMA) sent us the data for 2013 and invited our comments.
- 1.5 In December 2014, we produced an unpublished report which:
- summarised the CC's 2009 decision regarding Aberdeen airport, and the undertakings given by BAA;
 - gave an overview of Aberdeen airport's operations and consider what has changed since the CC's 2009 decision;
 - presented Aberdeen's accounting data (public and non-public) between 2007 and 2013 available as a result of the undertakings; and
 - considered what conclusions could be drawn from the above.
- 1.6 Since the last report, the CMA launched a post-implementation review of the BAA Market Investigation remedies with a view to report in March 2016.
- 1.7 Late in 2015 the CMA requested the CAA's views on updated information made available by the Aberdeen airport's remedy, in order to input to its evaluation of the remedies resulting of the CC's Market Investigation of BAA airports. We prepared this report to feed into that evaluation and decided to publish it for reasons of transparency and as a way to raise awareness in the airport community to the existence of these information remedies.

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The 2009 Decision and Aberdeen's undertakings

- 1.8 The CC found that Aberdeen's comparatively isolated geographical location relative to other centres of population, combined with other general factors that made it unattractive to serve a catchment of Aberdeen's size with more than one airport, were features that deterred entry, restricted airport competition and resulted in an AEC.¹
- 1.9 The CC required BAA to give undertakings to:
- publish annually a set of audited accounts with segmental analysis (i.e. by type of traffic [fixed wing / rotary] and non-aeronautical activity [Retail / Property / Other]) as well as information on assets, revenue, costs and profits on a "replacement cost basis";
 - make available data on airport charge yields by airline to the CC and to the CAA, also annually;
 - consult at least annually with airport users and other relevant stakeholders at Aberdeen regarding its prospective capital expenditure programme. This would involve the publication of information to the airlines and other interested parties on the airport masterplan, a summary forward programme of capital projects together with forecast costs and details of individual key projects and the creation of a forum for the proposals to be discussed.
- 1.10 In April 2011, BAA companies (including Aberdeen Airport Ltd) gave undertakings to the CC on the above and included, alongside the commitments, a methodology paper that would be used to produce the required accounting information for Aberdeen airport.²
- 1.11 In its 2009 decision, the CC acknowledged the possibility of Aberdeen seeking release from the undertakings given by BAA in the event of a significant change of circumstances (but subject to a review of the situation at that time). The CC anticipated that the implementation of the new regulatory regime (through what became the Civil Aviation Act 2012) was likely to constitute such a change of circumstances

1 CC Decision, Appendix 10.7. The conclusions on remedies for Aberdeen is presented in appendix A

2 The undertakings (and the methodology) can be found in https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330673/BAA-market-investigation-undertakings.pdf

- 1.12 In its conclusions, the CC also considered that “the full suite of proposed Tier 1 licence conditions should be available for application to Aberdeen, given the airport’s strategic importance and regional significance”.^{3,4}

3 See paragraph 44 of appendix 10.7 of the CC’s decision.
http://webarchive.nationalarchives.gov.uk/20100111133411/http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/545_10_7.pdf

4 Tier 1 licence was a term in early versions of the Civil Aviation Bill to refer to licences of airport operators that met the Market Power Test.

Chapter 2

Overview of Aberdeen's operations and market developments

Location and Population

- 2.1 The airport is indeed in a remote location. By car, it is around 2h30m to Edinburgh airport and around 2h15m to Inverness airport. In addition, the population in Aberdeen's catchment area⁵ is relatively small. According to the Office for National Statistics, the population of the City of Aberdeen together with the population of Aberdeenshire was below 500,000 in 2011.
- 2.2 Aberdeen serves two distinct categories of air transport services:
- fixed wing: those services that utilise fixed wing (i.e. non-helicopter) aircraft for the carriage of passengers and cargo to other UK or international airports; and
 - rotary wing: those services that utilise rotary wing aircraft (i.e. helicopters) for the carriage of passengers and cargo, mainly to oil rigs in the North Sea.
- 2.3 The CC concluded that it was reasonably clear that there was not a realistic substitute airport for airlines to operate from near Aberdeen. Other airports were only likely to provide a weak constraint on the conduct of Aberdeen airport. This situation has not changed since the 2009 report.
- 2.4 It is also quite plausible that there is a benefit for airport users in the co-location of helicopter and airline operations at one airport, as some passengers and cargo travelling to oil rigs are also likely to use a fixed wing service to/from Aberdeen.

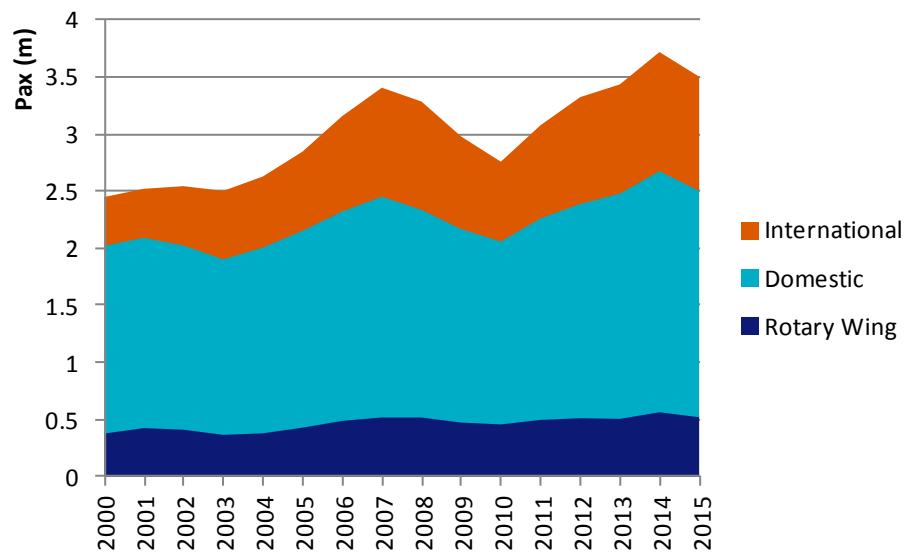
5 In 2013, the CAA Passenger Survey interviewed Aberdeen's fixed-wing passengers only. Of those interviewed, 78 per cent originated in either in the city of Aberdeen or in Aberdeenshire. Passengers travelling by surface from other regions accounted for just 9 per cent, whereas passengers arriving by air (both by helicopter or fixed-wing flights) to connect with a fixed-wing flight accounted for 13 per cent of total Aberdeen's fixed-wing passengers.

Figure 1: Map of Scotland

Traffic

- 2.5 Fixed wing traffic peaked in 2007 and followed the business cycle with a peak to trough (2010) of around 20 per cent of the airport's passengers. By 2014, fixed wing traffic was nine per cent above 2007 levels reaching an all time high of 3.2m passengers, however in 2015 passenger numbers fell by approximately five per cent to 3.0m.⁶
- 2.6 Rotary wing traffic grew from around 400,000 passengers per annum in the early 2000s to over 500,000 in 2007. Since 2007, however traffic has fallen with the economic downturn but the relative fall was less pronounced than that observed on fixed wing traffic and traffic has also now recovered to 2007 levels.
- 2.7 This relatively stronger performance during the economic downturn may be due to the impact of the offshore sector, including oil gas and renewable energy, on the use of the airport. These sectors were not affected as strongly by the economic downturn. Going forward, if the recent downturn in oil prices proves to be sustained, oil-related traffic at Aberdeen airport may be negatively impacted.

⁶ Total passenger numbers, including rotary wing, were approximately 3.5m (7 per cent down) in 2015.

Figure 2: Traffic at Aberdeen by wing type and destination type

Source: CAA Airport Statistics

Airlines and Helicopter operators at Aberdeen

- 2.8 Aberdeen serves a wide and diverse portfolio of airlines. Figure 3 shows the proportion of total Aberdeen fixed wing passengers by airline between 2007 and 2015. Over this period, a number of airlines ceased operating from the airport, some of which went out of business. Those airlines that ceased operations include Virgin's Little Red⁷ bmi, Ryanair, flyglobespan, flightline, Thomas Cook and Monarch. On the other hand, other airlines, such as Lufthansa and Aer Arann started serving the airport. The airport's largest airlines in terms of passenger numbers are BA, Eastern Airways, Flybe, KLM and easyJet.

7 Virgin Little Red ceased operations from September 2015, which reduced airline competition in the Aberdeen-Heathrow route.