

# Competition Commission Simulation: The verdict

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On 19<sup>th</sup> March 2009 the Competition Commission (CC) announced that BAA would have to sell both Gatwick and Stansted airports, as well as either Edinburgh or Glasgow. They said,

We are requiring BAA to sell all three airports within two years. To ensure an orderly sales process and in recognition of current market conditions, we consider it sensible for them to be sold in sequence, beginning with Gatwick, then Stansted, followed by either Edinburgh or Glasgow. Although we consulted on the basis that there might be competition factors which favoured the sale of Edinburgh over that of Glasgow, we have concluded that the case is not sufficiently strong to favour one over the other, so we have decided that it is appropriate for BAA to have the choice.

Some of the problems identified in the report included:

- Common ownership of Edinburgh and Glasgow airports is a feature which prevents competition between them.
- Common ownership of Southampton with Heathrow and Gatwick is a feature of the market which prevents competition between them; there is scope for competition from Heathrow and Gatwick to have an impact on Southampton, although the potential for competition to have an impact on Southampton is greater from Gatwick than Heathrow.
- Aspects of the planning system are a feature which restricts and/or distorts competition by acting as a barrier to entry of new airports and expansion of existing ones.
- Aspects of government policy are features which restrict or distort competition between airports.
- The current regulatory system for airports is also a feature which distorts competition between airlines.

The outcome of the decision was as follows:

- In December 2009 BAA sold Gatwick Airport to Global Infrastructure Partners (GIP) - who also own London City Airport - for £1.51bn.

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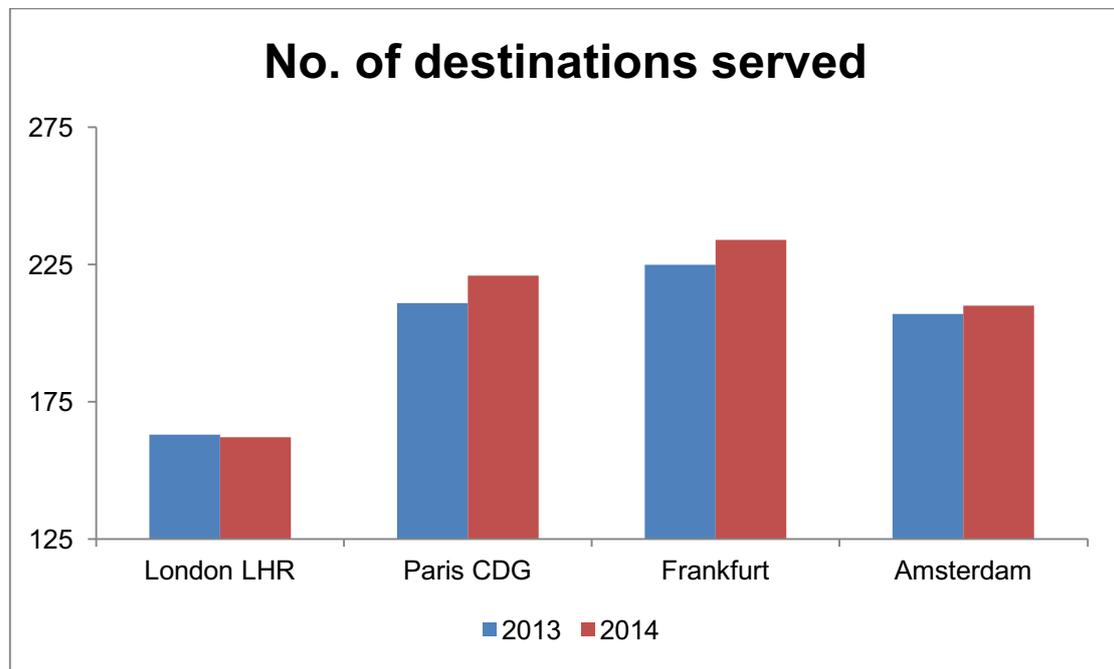
\* Prof. Anthony J. Evans prepared this note for the purpose of aiding classroom discussion. It is not intended to serve as an endorsement, source of primary data, or illustration of effective or ineffective management. © Anthony J. Evans 2014.

- In April 2012 GIP also bought Edinburgh Airport, for £807m.
- In January 2013 the CC approved the sale of Stansted Airport to Manchester Airports Group

Interestingly, as of 2013 a number of non BAA airports were already planning expansion:<sup>1</sup>

- Expansion of services and facilities at Manchester Airport estimates a usage by 50 million passengers in 2030, which is more than twice as many as the airport handles now.
- Luton's usage has increased by around 900% between 1991 and 2006.
- Birmingham Airport also has plans to expand, with a new terminal due for completion in 2012.
- In November 2008, Bridgepoint Capital announced a £28 million expansion of the current terminal building at Leeds Bradford International Airport, enabling the airport to handle in excess of 6 million passengers a year.
- A £45 million redevelopment by Manchester Airports group was announced in 2006 and began in 2008.
- Since its purchase by the Stobart Group in 2008, London Southend Airport has embarked on a massive programme of development including a 300 m runway extension, new terminal, railway station and hotel.

Finally, on measures such as no. of destinations served, London Heathrow has been falling behind other Western European major airports.<sup>2</sup>



<sup>1</sup>[https://en.wikipedia.org/wiki/Busiest\\_airports\\_in\\_the\\_United\\_Kingdom\\_by\\_total\\_passenger\\_traffic#Future\\_airport\\_expansion](https://en.wikipedia.org/wiki/Busiest_airports_in_the_United_Kingdom_by_total_passenger_traffic#Future_airport_expansion)

<sup>2</sup> See “London Heathrow falls further behind its European rivals this winter as Amsterdam, Frankfurt and Paris all report growing networks”, 2014.