

Breaking up BAA won't clear the south's crowded runways

The unpopular operator is likely to lose its regional monopoly this week. But, as Tim Webb reports, it is not wholly to blame for London's airport woes

- Tim Webb
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BAA, it seems, is the company everyone loves to hate. Most passengers having to fight their way through the chaos at its airports, such as Heathrow, are not big fans. Neither are the airlines, some of whom have taken legal action against the airports operator. The Spanish-owned group operates a monopoly, the airlines say, resulting in expensive, overcrowded and poorly run airports, which are also too small. But when BAA does try to expand - trying to build new runways at Heathrow and Stansted - it gets it in the neck from environmentalists.

BAA is also in the sights of the Competition Commission. Some 91 per of all flights in the south east take off from airports owned by BAA. Iata, the international airline body, says no other airports owner exerts such control over a market, particularly given that Britain is an island and so relies more than some other countries on air travel.

This week, the commission is expected to recommend that BAA be forced to sell Heathrow, Stansted or Gatwick, most likely the latter. By effectively breaking up BAA and dividing Britain's largest airports among different owners, the commission hopes that they will compete against each other and so provide a better service to passengers and airlines.

But passengers hoping that a sale of Gatwick could solve the UK airports mess should think again. Peter Morris, chief economist of consultancy Ascend, says: 'It does not make sense to sell Gatwick and hope some magic takes place so that the airports work properly.'

So how can Britain's airports be fixed? One of the few issues that BAA, the airlines and the commission are agreed on is that the lack of airport capacity in the south east makes competition difficult. Because there is so much demand for flights in the region, the airports there will be fully used whether they are well-run or not. So a new owner of Gatwick would not have to try any harder than BAA to

attract airlines and passengers. Moreover, even if airlines did want to move to a better-run Gatwick, there wouldn't be any space for them.

But the commission and airlines point the finger at BAA for causing the shortage of capacity in the first place - a charge hotly contested by the airports group. They accuse it of deliberately slowing the expansion of their airports in the south east in order to reinforce its monopoly. BAA has traditionally only tackled one major project at a time. According to the commission, it has even offered not to expand - for example telling the planning inspector for Terminal 5 that it would commit to not building a third runway at Heathrow.

In 1979, in return for getting the go-ahead to build the north terminal at Gatwick, BAA also promised West Sussex county council not to build a second runway before 2019, which seems an excessively long-term commitment.

It's certainly fair to say that over the last 20 years, BAA has been slow to expand, which the company blames on planning restrictions and government dithering; the commission, however, argues that BAA has actively deferred decisions on expansion to government in the knowledge that they would be delayed. BAA also counters that it is now trying to enlarge both Heathrow and Stansted; but this is long overdue.

Whether wittingly or not, BAA is the beneficiary of an underdeveloped and run-down airports system in the south east. Just selling Gatwick, in the short term, would have little impact.

The commission is also examining how BAA is regulated, as is the government. The regulator, the Civil Aviation Authority - which, like BAA, is vilified by most airlines - itself acknowledges that the current regime needs to change. Its main role is to set the landing charges levied by airports on airlines every five years, but it has little flexibility significantly to reward - or penalise - BAA for its performance in the interim period.

As well as having to fork out a whopping increase of more than 20 per cent a quarter in landing fees this year, airlines are also justifiably upset that the fees go toward facilities which, in some cases, they do not benefit from - for example T5, which is to be used exclusively by British Airways. In the future, airlines want the regulator to exert more influence over BAA's spending, as well as introducing performance criteria that it must meet.

Ironically, if the sale of Gatwick and a new regulatory regime do make airports more competitive, airlines are worried that regulation could weaken. Currently, only Manchester, Gatwick, Heathrow and Stansted are subject to price controls set by the CAA, while the majority of the UK's airports are not regulated. Some airlines worry that if Gatwick were sold, it could also be exempt, which could result in higher fees.

One other consequence of a sale of Gatwick is that the construction of a second runway would become more likely. In the government's 2003 White Paper on aviation, which set out its preferred options for airport expansion, new runways at Heathrow and Stansted were recommended before expansion at Gatwick. But the commission has criticised the way development has been prioritised because it discriminates against airports lower down in the list of recommendations. A new owner would also be more likely than BAA to press ahead with plans to build a new runway.

There is no quick fix to the problems of airports in the south east. Heathrow is in the wrong place: being west of London means most flight paths are over the capital, making expansion difficult. Stansted, Gatwick, City and Luton airports are too spread out to provide any connectivity.

As Morris from Ascend says: 'In the south east, we have managed to lump ourselves with one of the most masochistic airport systems in the world.'