

# 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

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- 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- 1.5 In December 2014, we produced an unpublished report which: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.

## The 2009 Decision and Aberdeen's undertakings

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- 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.<sup>1</sup>
- 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.<sup>2</sup>
- 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

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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](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”.<sup>3,4</sup>

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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](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

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## Location and Population

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- 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 area<sup>5</sup> 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.

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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.

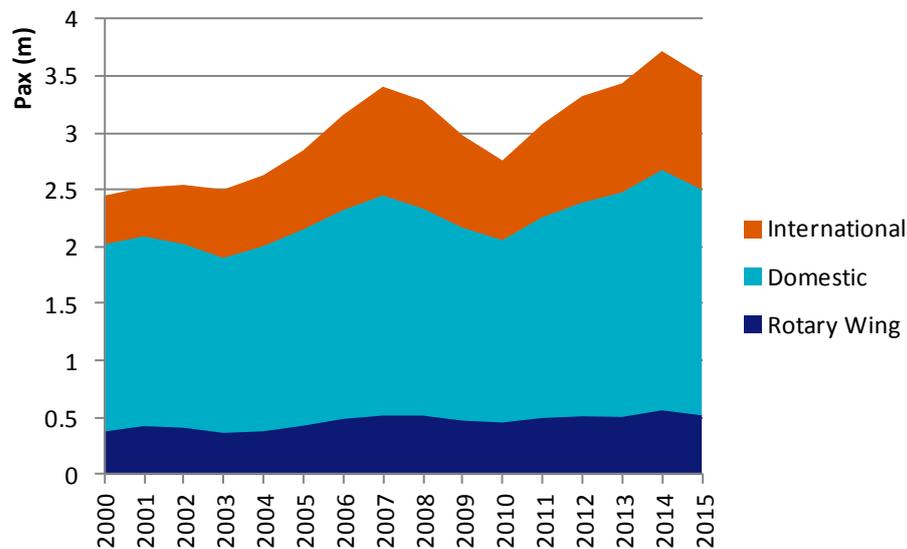
**Figure 1: Map of Scotland**

## 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.<sup>6</sup>
- 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.

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<sup>6</sup> 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 Red<sup>7</sup> 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.

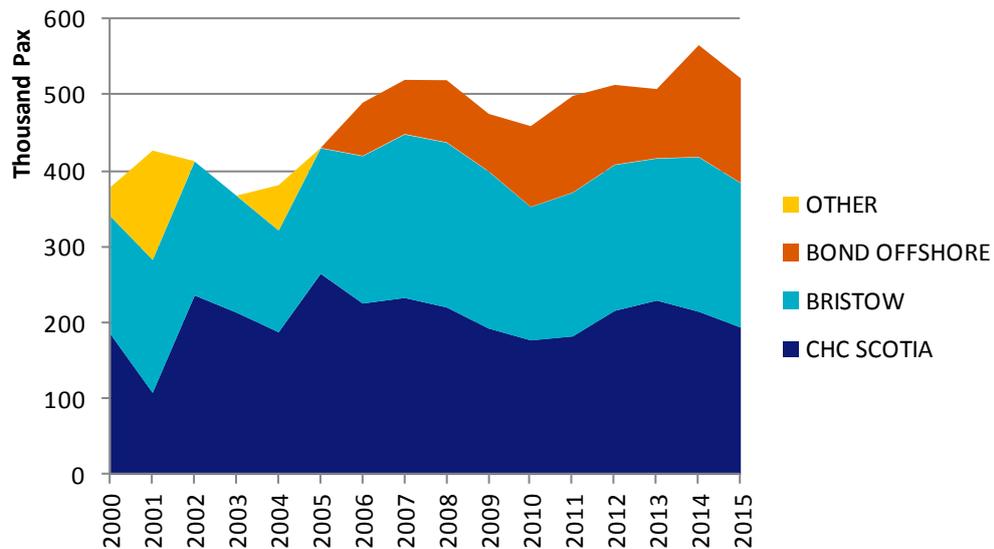
7 Virgin Little Red ceased operations from September 2015, which reduced airline competition in the Aberdeen-Heathrow route.

**Figure 3: Airline shares of total Aberdeen passengers on fixed wing aircraft (%)**

Airline	2007	2008	2009	2010	2011	2012	2013	2014	2015
BA	24	19	20	20	20	22	24	21	20
Eastern Airways	9	10	16	17	16	15	15	14	13
Flybe	4	8	11	11	13	12	10	12	14
easyJet	5	5	5	6	8	9	9	8	8
KLM	9	10	10	11	11	10	10	10	10
bmi Regional	6	6	7	6	4	3	4	4	3
bmi	8	7	6	8	6	2			
Loganair	4	4	4	4	4	4	4	4	4
Hop	4	4	4	5	5	4	4	3	3
Wideroe	4	4	4	4	4	4	4	3	3
SAS	3	3	3	3	3	3	3	4	5
Cimber	2	2	2	2	2	2	2	4	5
Ryanair	4	3	2	2	1				
Flyglobespan	3	4	4						
Flightline	5	5							
bmibaby	3	3							
Lufthansa					1	5	5	5	5
Thomas Cook				1	2	1			
Aer Arann / Stobart air					1	1	1	1	1
Little Red							3	6	5
Other Airlines	4	2	1	1	2	2	3	4	5

Source: CAA Airport Statistics

2.9 There are three helicopter operators carrying passengers and cargo between Aberdeen and oil rigs in the North Sea. CHC Scotia and Bristow both carried around 190,000 passengers and Bond Offshore, which started operating at the airport in 2006, carried around 140,000 passengers in 2015. The entry of Bond Offshore coincided with passenger traffic growing from around 400,000 per annum to around 500,000 per annum since 2006.

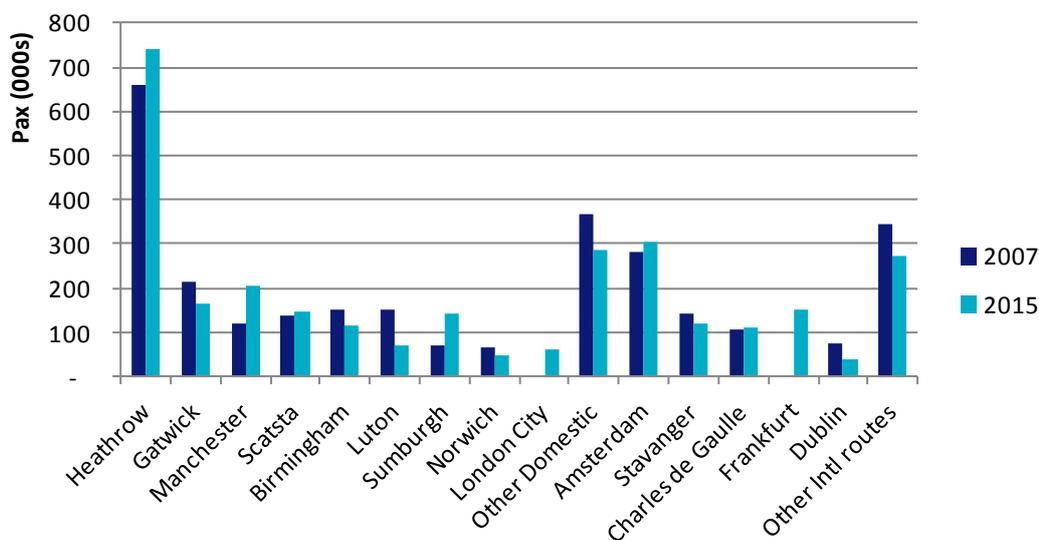
**Figure 4: Passenger numbers by rotary wing Operator**

Source: CAA Airport Statistics

## Route Network

- 2.10 Most fixed wing passengers (67 per cent in 2015) travel on domestic routes, with Heathrow being the largest route. Furthermore, the largest international routes served from Aberdeen are foreign hub airports (Amsterdam, Paris (CDG), Frankfurt). Another popular international destination is Stavanger in Norway.
- 2.11 There are a small number of leisure point-to-point destinations but, given the relatively small catchment area of Aberdeen airport, passengers tend to rely on access to hub airports whether in the UK or elsewhere from where they connect to onward destinations. In fact, 28 per cent of Aberdeen's passengers connect to/from another flight at the destination of their flight to/from Aberdeen (48 per cent in the case of Heathrow and 58 per cent in the case of Amsterdam).<sup>8</sup>

<sup>8</sup> Source: [CAA Passenger Survey 2013](#).

**Figure 5: Passenger numbers by flight destination**

Source: CAA Airport Statistics

## Ownership changes

2.12 Since the CC's decision, BAA has become Heathrow Airport Holdings Ltd (HAHL) and, mainly as a result of the CC decision, sold other airports over time:

- In October 2009, it was announced that Global Infrastructure Partners (GIP) had bought Gatwick, for £1.51 billion. In December 2009, Global Infrastructure Partners became the owners of Gatwick Airport Limited.<sup>9</sup>
- In April 2012, BAA agreed to sell its 100 per cent interest in Edinburgh Airport to Global Infrastructure Partners for £807.2 million and in June 2012 GIP took ownership of the airport.<sup>10</sup>
- In January 2013, HAHL announced the sale of Stansted to the Manchester Airports Group who took control of the airport in March 2013.<sup>11</sup>
- In October 2014, HAHL agreed to sell Glasgow, Southampton and Aberdeen airports to a consortium of Ferrovial and Macquarie Group (AGS Airports Ltd) for around £1 billion.<sup>12</sup> The sale was completed in early 2015.

2.13 The divestment of Edinburgh introduced a potential competitor airport in Scotland, albeit a distant one. However, we do not consider that the ownership

9 <http://www.gatwickairport.com/business-community/about-gatwick/company-information/our-history/>

10 <http://www.edinburghairport.com/about-us/facts-and-figures/edinburgh-airport-history>

11 <http://www.stanstedairport.com/about-us/stansted-facts-and-figures/airport-history>

12 <http://www.bbc.co.uk/news/uk-scotland-29650438>

developments materially affect the analysis made by the CC in 2009. In fact, the CC did not find much potential at all for competition to develop at Aberdeen, given its remoteness.

## **Changes in the regulatory regime**

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- 2.14 As stated above, with the enactment of the Civil Aviation Act 2012, the way the CAA regulates airports fundamentally changed. The new legal framework enables us to regulate with a licence that is much more flexible to pre-empt or respond to events. With the Civil Aviation Act 2012, we also gained concurrent competition powers with the CMA relating to Airport Operation Services.

## Chapter 3

## Information made available as part of the undertakings

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- 3.1 In this section, we present the accounting information made as part of the remedy. Aberdeen airport publishes most of this information, except for airline-specific yield information which is only submitted to the CMA and is then made available to the CAA. The airline specific data is not published. The information dates back to April 2006<sup>13</sup> and consists of:
- assets evaluated on a depreciated replacement cost basis by segment<sup>14</sup>;
  - revenue by segment;
  - operating profit by segment;
  - return on depreciated replacement cost of assets employed;
  - average yield (fixed wing, rotary and non-aeronautical) per passenger;
  - average yield by airline (confidential); and
  - passenger numbers by airline (also available through CAA Airport Statistics, as presented above).

### **Assets (Depreciated Replacement Cost) by segment**

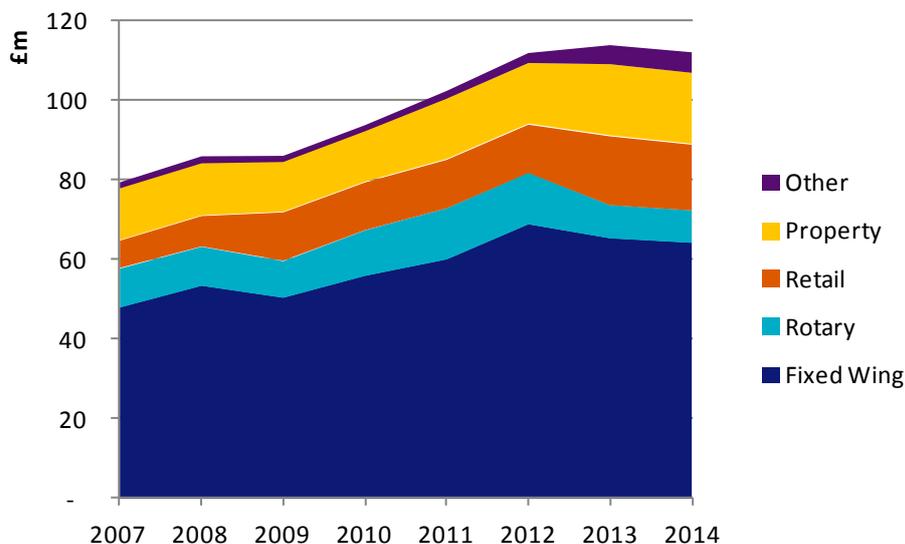
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- 3.2 Figure 6 shows the evolution of assets, on a depreciated replacement cost basis, used for each of the airport operator's revenue segments. Aeronautical assets increased by 25 per cent between 2007 and 2014, whereas non-aeronautical assets increased by 83 per cent. This suggests that there was a level of net capital investment over the period.

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13 2006 reporting is for 9 months only, so we excluded from the charts below.

14 Segments are aeronautical: fixed wing and rotary wing, and non-aeronautical: retail, property and other.

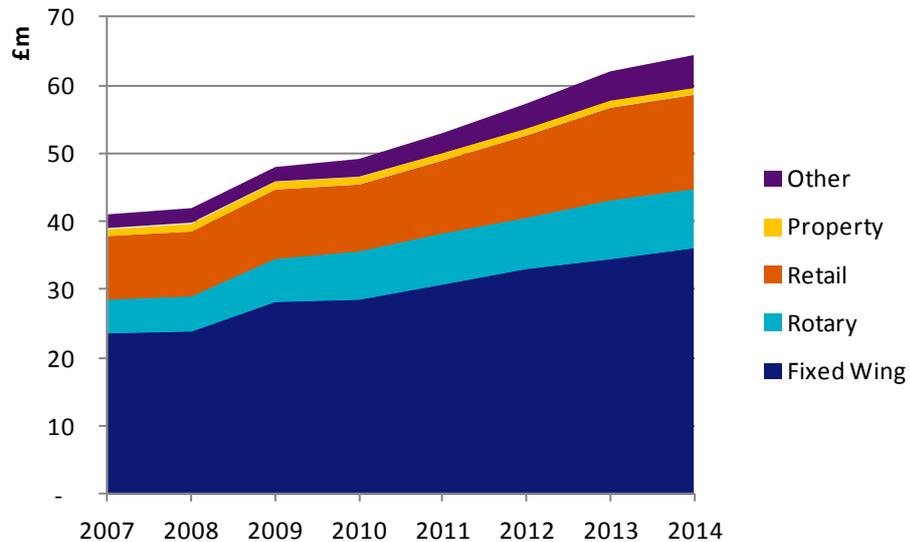
**Figure 6: Assets (Depreciated Replacement Cost - current prices)**

Source: Aberdeen, information published in fulfilment of the undertakings

## Revenue by segment

- 3.3 From April 2009, TANS<sup>15</sup> charges became part of the airport's revenues, whereas before this date these were charged directly to airlines at BAA airports. Therefore, the information presented is not comparable throughout the period.
- 3.4 Nevertheless, airline and helicopter revenues grew over the period and, certainly post-2010, revenues grew as airline traffic volumes recovered as shown in Figure 7. In 2010, aeronautical revenues totalled £36 million (£12.80 per passenger) compared with £45 million (£11.87 per passenger). In addition, given CAA's understanding of TANS contract values for Aberdeen, and looking at airport charge yields presented in Figure 11 below, it appears that aeronautical revenue per passenger, even in nominal terms, did not have a significant upward trend.
- 3.5 Non-aeronautical revenues grew from around £12 million in 2007 to £20 million in 2014, an increase of 61 per cent over the period led by greater revenues per passenger as traffic was only 10 per cent higher in 2014 compared with 2007.

<sup>15</sup> Terminal Air Navigation Services.

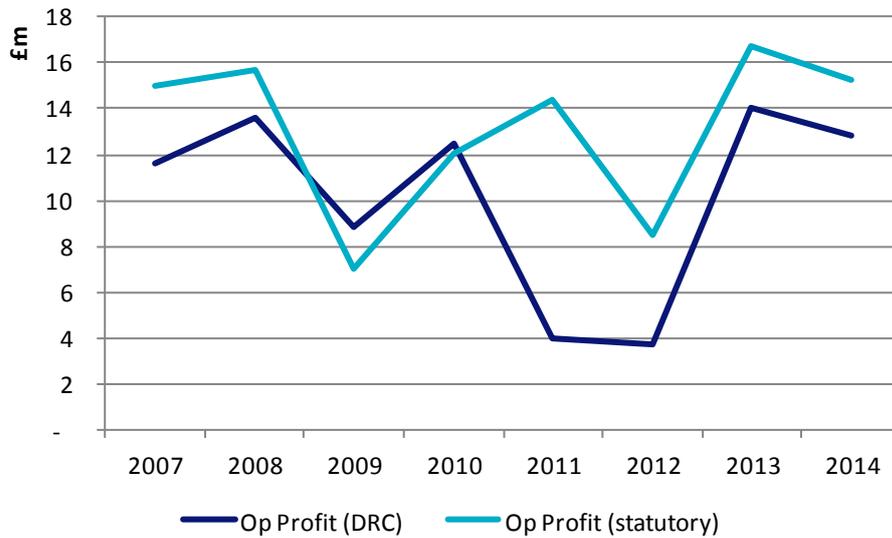
**Figure 7: Revenue by segment (nominal)**

Source: Aberdeen, information published in fulfilment of the undertakings

## Operating Profit by segment

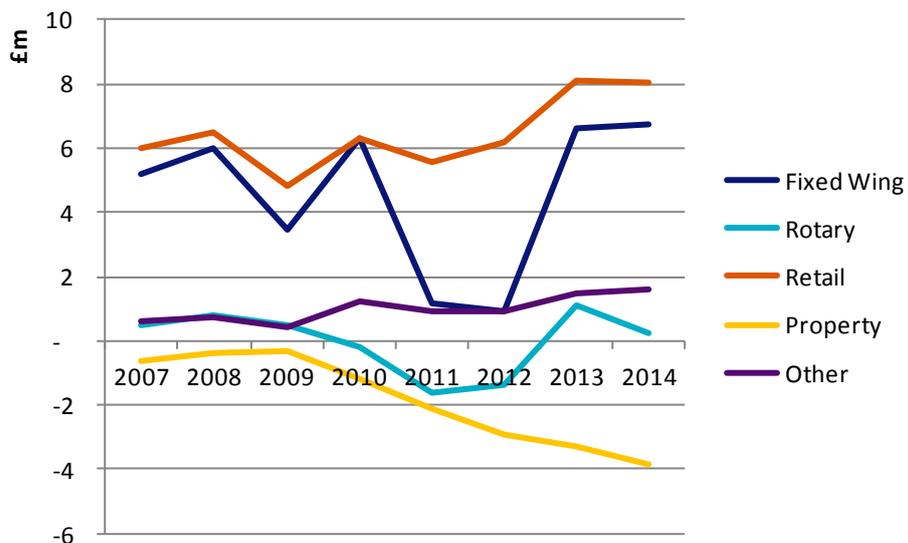
3.6 As shown in Figure 8, profits averaged around £10 million per annum based on the segmental analysis produced using replacement cost depreciation and around £12.8 million as per statutory accounts (i.e. statutory depreciation). This represents an average of around £2.70 per passenger on a replacement cost basis and around £3.50 per passenger based on statutory accounts. Figure 9 shows that, in 2014, the aeronautical segment accounted for around half of the profit and the non-aeronautical segment (mostly driven by retail) for the other half.

**Figure 8: Profit: depreciated replacement cost and statutory (nominal)**



Source: Aberdeen, information published in fulfilment of the undertakings

**Figure 9: Profit by segment (nominal)**



Source: Aberdeen, information published in fulfilment of the undertakings

## Return on Depreciated Replacement Cost of Assets Employed

3.7 Figure 10 shows an estimate of the return on assets employed, when assets are evaluated on a depreciated replacement cost basis. Between 2007 and 2014, Aberdeen Airport Ltd achieved, on average, an annual return on capital of 10.7 per cent. The return was much higher than average on the retail and other segments, whereas property made losses throughout the period. Also, fixed wing operations made a higher return on assets employed than rotary wing. The

different rates of return from different areas of an airport's business segments may not be very informative, as much depends on how assets are allocated between them. In addition, retail and catering are not capital intensive so returns on capital would usually be higher than on aeronautical segments.

**Figure 10: Return on depreciated replacement cost of assets employed**

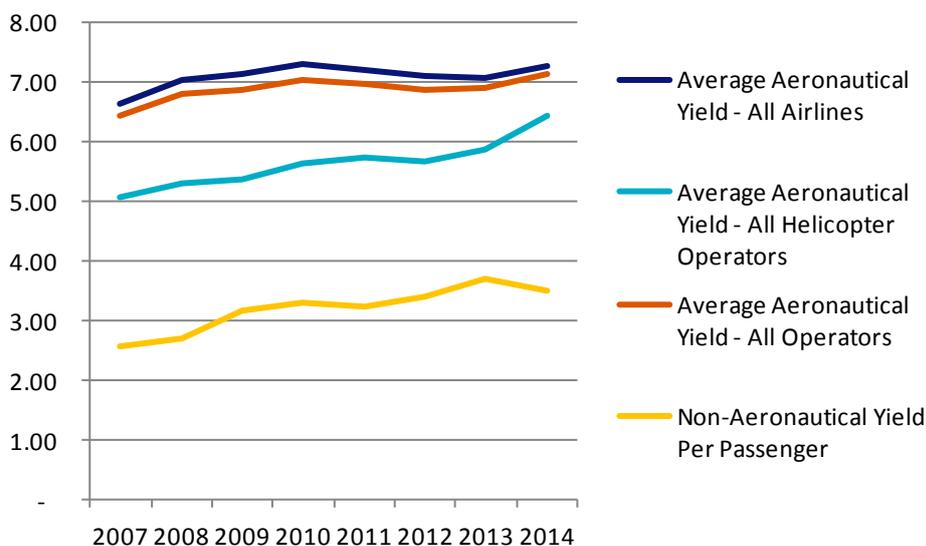
	2007	2008	2009	2010	2011	2012	2013	2014
<b>Aeronautical</b>								
Fixed Wing (%)	10.98	11.85	6.59	10.92	1.95	1.33	10.12	10.41
Rotary (%)	5.13	7.91	4.89	-1.78	-12.88	-10.55	13.35	2.93
<b>Non-Aeronautical</b>								
Retail (%)	88.07	89.14	48.10	51.84	45.65	49.94	47.58	47.35
Property (%)	-4.56	-2.95	-2.39	-9.12	-14.58	-19.18	-18.25	-21.25
Other (%)	40.96	45.79	25.76	82.12	53.19	38.30	31.34	30.56
Total (%)	14.88	16.49	10.21	13.01	3.96	3.29	12.36	11.28

Source: Aberdeen, information published in fulfilment of the undertakings

## Average Yield (Fixed wing, Rotary and Non-aeronautical) per passenger

- 3.8 The average yield figure is based on the airport charges income (passenger, landing and parking charges) divided by the total number of passengers. This number is lower than the airline and helicopter revenue per passenger presented above because it does not include air navigation elements (that are quite high at Aberdeen) nor any element of property, utilities or other income paid by airlines to Aberdeen Airport Ltd.
- 3.9 In nominal terms, airline yields increased by 6 per cent between 2007 and 2008 to £7.05 but did not change much between 2008 and 2013. Between 2013 and 2014, airline yields increase by 3 percent. Helicopter yields rose from £5.09 in 2007 to £6.43 in 2014, an increase of 26 per cent over the period. Non-aeronautical yields<sup>16</sup> rose from £2.56 in 2007 to £3.69 in 2014, an increase of 36 per cent. This is shown in Figure 11, below.
- 3.10 Overall, aeronautical yields grew between 2007 and 2014 by about £0.80 per passenger while non-aeronautical yields grew by just over £1.10 per passenger, but from a lower starting point.

16 Aeronautical revenue from statutory accounts per passenger.

**Figure 11: Average Yield - £/passenger (nominal)**

Source: Aberdeen, information published in fulfilment of the undertakings

- 3.11 Aberdeen has a published tariff structure under which airport charges means that airlines serving domestic routes tend to pay lower airport charges compared to those serving international routes.<sup>17</sup> However, the airport is also able to negotiate charges with individual airlines that depart from this published tariff. The airport serves fewer than 5m passengers per annum and so it is not covered by the obligations in the 2011 Airport Charges Regulations. It is, however, required to comply with the 1998 Competition Act for which the CAA has concurrent powers with the CMA.

## Average Yields by airline (confidential<sup>18</sup>)

- 3.12 The structure of airport charges means that airlines serving domestic routes tend to pay lower airport charges compared to those serving international routes.<sup>19</sup> Figure 12 below clearly shows a cluster of non-UK airlines yielding around [redacted] per passenger and another cluster of domestic airlines yielding around [redacted] per passenger.
- 3.13 Furthermore, some airlines seemed able to negotiate discounts to published charges. For instance, [redacted].

17 Airport conditions of use including its schedule of charges is available at: <http://www.aberdeenairport.com/media/47161/AIAL-Conditions-of-Use-2014.pdf>

18 Some information has been redacted ([redacted]) as it was submitted to the CMA and CAA by Aberdeen on a confidential basis, in line with the requirements of the remedies.

19 Airport conditions of use including its schedule of charges is available at: <http://www.aberdeenairport.com/media/47161/AIAL-Conditions-of-Use-2014.pdf>

**Figure 12: Aeronautical yield - selected airlines (nominal)**

[✂]

Source: Aberdeen, supplementary confidential information provided to the CMA

## Airport consultation and capital investment

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- 3.14 It is difficult for the CAA to assess the quality of Aberdeen airport's consultation with its stakeholders as, for the purposes of this document, we have not engaged directly with the parties. We note however that:
- in 2012, Aberdeen consulted on a draft Master Plan<sup>20</sup> outlining its 30 year vision for the future and an independent report on the consultation process and a summary of responses have been published;
  - in October 2011, the airport inaugurated a 124-metre extension of its runway, which enables airlines to remove payload restrictions and increase aircraft range of their flights as well as to serve Aberdeen with larger aircraft; and
  - Aberdeen has announced that it is investing around £20 million redeveloping its terminal building, to create two new passenger lounges, an expanded baggage reclaim area, a new security search area, new immigration facilities and new retail and catering facilities within the main departures lounge. This three year project begins in May 2016.<sup>21</sup>
  - We are not aware of any complaints from airlines that Aberdeen airport has not met the terms of its undertakings.

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20 <http://www.aberdeenairport.com/media/47223/Aberdeen-International-Airport-Master-Plan-Consultation-Report.pdf>

21 <http://www.aberdeenairport.com/about-us/media-centre/press-releases/news/2016/terminal-transformation/>

## Chapter 4

## Aberdeen's comparison to other airports

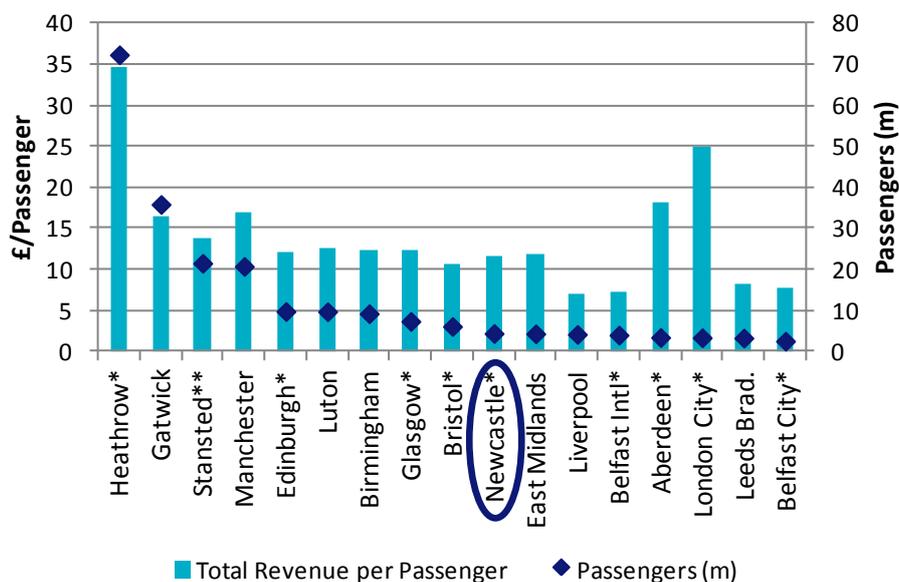
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- 4.1 Aberdeen's relatively high prices and profits were part of the reason the CC became concerned about the airport and required BAA to give undertakings.
- 4.2 It is difficult to compare data given under the undertakings with other airports on a like-for-like basis because other mid-sized UK airports are not subject to similar information requirements and because, as noted previously by the CAA<sup>22</sup>, top-down airport charge benchmarking is intrinsically complex and statistically difficult, given the heterogeneity of airport businesses. However, we have looked at published accounts for other UK airports to put Aberdeen's prices into perspective.
- 4.3 Figure 13 shows total revenue per passenger calculated from airports' accounts. This suggests that Aberdeen is able to achieve a level of revenue per passenger comparatively higher than other airports of a similar size, with the exception of London City airport. This comparison is an imperfect one. For example, airports with above average non-passenger revenues (e.g. cargo, retail or property) will show a higher revenue per passenger than its actual price per passenger in comparison to other airports. It is also arguable that revenue per passenger is not always a fair measure to compare across airports at different locations and with different traffic characteristics. For example, if we had compared airports using revenue per air transport movement as a measure, Aberdeen would come up lower than comparators as it has many helicopter movements each serving a small number of passengers. We also understand that Aberdeen airport receives substantial income from a number of activities that are not passenger related including fire training to people going offshore and new fire-fighters and income from oil and gas consortiums for enhanced security screening of offshore workers.

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22 See, for example the CAA's response to the Provisional Decision on Remedies, Jan 2009, paragraphs 2.8 - 2.11, available in [http://webarchive.nationalarchives.gov.uk/20101110130516/http://www.caa.co.uk/docs/5/ergdocs/090114\\_CAAResponse.pdf](http://webarchive.nationalarchives.gov.uk/20101110130516/http://www.caa.co.uk/docs/5/ergdocs/090114_CAAResponse.pdf)

Figure 13: Total revenue per passenger at UK airports serving &gt; 2mppa

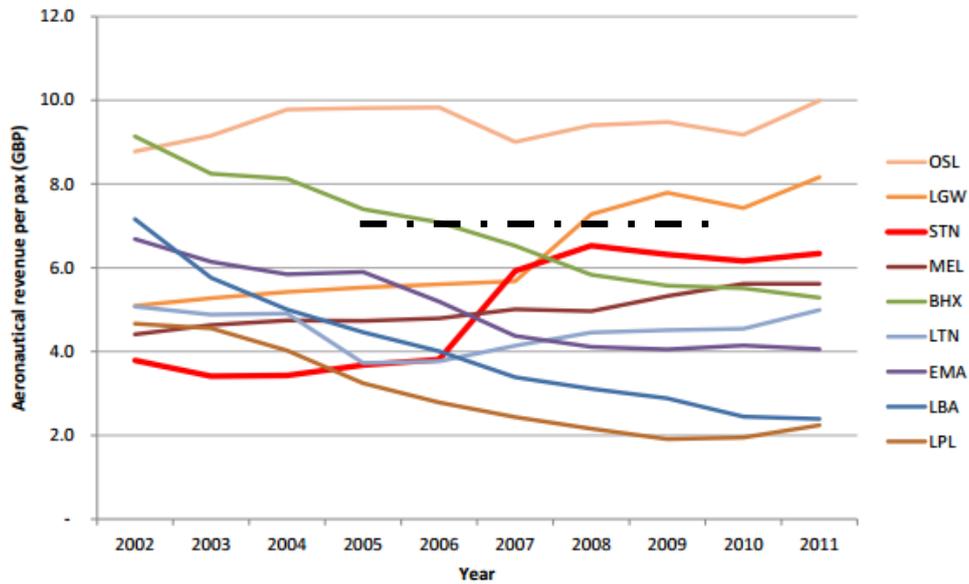


Source: Airport accounts, CAA Airport Statistics. Year ending March 2014, (\*) Year-ending December 2013, (\*\*) 15 months to March 2014.

- 4.4 Furthermore, Figure 14 (below) shows aeronautical revenues per passenger at a selection of other airports that were considered comparators of Stansted by Leigh Fisher, an independent transport consultancy. Aberdeen's yield at around £7 per passenger seems to be higher than at other mid-sized UK regional airports. Only Heathrow, Gatwick and London City airports have higher levels of aeronautical revenues per passenger.
- 4.5 As seen in Figure 11 above, non-aeronautical yields per passenger increased faster than aeronautical yields, which were relatively stable between 2007 and 2014. That trend was not too dissimilar to that of other mid-sized UK airports, where aeronautical charges were also relatively stable.<sup>23</sup>

23 See, Figure 3 of Leigh Fisher's report, available in <http://webarchive.nationalarchives.gov.uk/+/http://www.caa.co.uk/docs/78/LF%20Response%20to%20Comparator%20Model%20Comments%2012Aug13.pdf>

**Figure 14: Aeronautical revenue per passenger at a selected number of airports (Stansted comparators)**



Source: Leigh Fisher report to the CAA (August 2013).<sup>24</sup>

**Note:** We superimposed a dashed line to indicate where Aberdeen's airport charges would roughly be in this chart (i.e. roughly £7).

24 This report available at <http://webarchive.nationalarchives.gov.uk/+/http://www.caa.co.uk/docs/78/LF%20Response%20to%20Comparator%20Model%20Comments%2012Aug13.pdf>

## Chapter 5

## Emerging conclusions

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5.1 In summary, from our analysis we conclude the following:

- Aberdeen's ownership and that of other Scottish airports has evolved. However, the concerns from the CC about Aberdeen were not connected with common BAA ownership but rather geography. The airport's remoteness, the lack of alternative airports and its attractiveness to the oil industry remain as a potential AEC;
- prices and profits at Aberdeen remain comparatively high when compared with other mid-sized UK regional airports; In part, some of the difference in prices may be explained by the specificities of operations and dimension of Aberdeen airport, for example fire service and air traffic control.
- airline yields to the airport do not seem to have increased much in recent years but helicopter yields and non-aeronautical yields increased more, in comparison; More recently, given the downturn in oil prices and its effects at Aberdeen, the profitability of the airport and its pricing is not expected to improve at least for the next two reporting years.
- the airport serves a wide range of airlines and, although it publishes a standard tariff, there is also scope for airlines to negotiate individual contracts;
- in recent years, there has been some important capital investment (e.g. runway extension) and more is underway or planned (e.g. the terminal transformation programme). There is a relatively recent Master Plan (2013), following a thorough consultation exercised carried out by consultants working for the airport; and
- the separation from Heathrow Airport Holdings may bring more management attention to Aberdeen airport.

### Are the undertakings still fit for purpose?

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5.2 When the CC conducted the BAA market investigation, we considered that price controls could have harmful unintended consequences in the form of distorted investment incentives and that it seemed quite heavy handed to impose

detailed price regulation on such a small airport. A monitoring regime seemed to us to be more proportionate.<sup>25</sup>

- 5.3 The existing undertakings allow ongoing monitoring of Aberdeen's pricing and profitability by the CMA and the CAA. They also allow airlines (and other stakeholders) to observe average (but not relative) prices.
- 5.4 Following the 2012 Act, the CAA now has a wide range of additional powers in relation to airports as follows:
- the CAA now has a duty under section 64 of the 2012 Act to keep under review the provision of airport operation services in the UK. This would allow the CAA to compare charges at airports and examine the impact on competition and consumers; and
  - users of Aberdeen airport can complain to the CAA about a breach of competition law which would allow the CAA, if appropriate, to accept further commitments and impose penalties. The CAA has not received any complaint regarding Aberdeen airport before or since BAA gave Aberdeen's undertakings.
- 5.5 It is also possible for a request to be made to the CAA to make a market power determination (MPD) under the 2012 Act in respect of Aberdeen. However, we would not be obliged to carry out an MPD while the airport is below 5 million passengers. Aberdeen is currently below the 5 million-passenger threshold, which is also the threshold for the application of the Airport Charges Regulations.
- 5.6 With respect to the effectiveness of the Aberdeen remedy, we hope this report helps airlines get a more transparent understanding of Aberdeen airport's business and that they use that in their commercial engagement with the airports. We encourage stakeholders to tell us of any view they may have on how the CAA could better use the information provided by the remedy and how that could would translate into benefits for consumers.
- 5.7 The CAA continues to be of the view that a there is not enough evidence to justify, at this stage, a more intrusive form of price regulation or even a stronger form of oversight. It is a decision for the CMA when to revisit the remedies applied to Aberdeen airport. We consider that should it decide to review the remedies the CMA should consult with the airport and its users on the appropriateness and effectiveness of continuing to impose the current remedies.

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25 See paragraphs 11 to 16 of CAA's response to the CC's Provisional Decision on remedies available in: [http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/inquiries/ref2007/airports/pdf/response\\_pdr\\_caa.pdf](http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/inquiries/ref2007/airports/pdf/response_pdr_caa.pdf)

**APPENDIX A****CC's Conclusion on remedies for Aberdeen AEC**

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“Following the consultation process and further analysis, we consider that it is not appropriate to pursue a price cap at Aberdeen at present given the general concerns of local respondents and the CAA about the effects of a price cap and the risks, in particular, of unintended consequences as regards capital investment. We are also mindful that there is some uncertainty regarding the scale of adverse effects.

We will require, instead, a set of undertakings from BAA that will (a) require the reporting of revenue, accounting data and other relevant information to airlines and the CAA/OFT to increase transparency and provide an appropriate basis for scrutiny and (b) provide safeguards to airlines and other stakeholders regarding consultation, fair pricing and non-discrimination.

In specific terms the measures comprise:

- a) BAA will be required to publish audited accounts and segmental analysis on a depreciated replacement cost basis for Aberdeen together with other relevant information as indicated below. The accounts and other information will be audited and published on an annual basis and will include:
  - i. segmental analysis of the value of tangible assets on a depreciated replacement cost basis split by major categories of aeronautical (i.e. fixed wing and rotary wing) and non-aeronautical assets;
  - ii. segmental analysis of revenue, operating costs and operating profit for major categories of aeronautical and non-aeronautical activities (as split in (i) above);
  - iii. depreciated replacement cost return on assets employed; and
  - iv. average annual yield for fixed-wing aircraft and rotary aircraft and (for the CAA/OFT only) average yield per airline.

It is proposed that the publication should provide comparable annual figures for the last five years.

- b) BAA will be required to 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 on the airport master plan, a summary forward programme of capital projects together with forecast costs and details of individual key projects to the airlines and other interested parties and the creation of a forum for the proposals to be discussed.

We propose that the form and content of the above publications will be approved by the CAA and the OFT. Failure to comply with the above measures may result in enforcement action by the OFT or third parties under the Enterprise Act. Customer complaints arising

from the information generated by these measures may provide grounds for investigation by the CAA using its powers under the Airports Act.

In the event of a significant change in circumstances, BAA will be able to seek release from these undertakings from the CC subject to advice from the OFT. We anticipate that the implementation of the new regulatory regime by the DfT is likely to constitute such a change of circumstances (but subject to a review of the situation at that time). We support the DfT's views set out in paragraph 39 above and consider 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."

Source:

[http://webarchive.nationalarchives.gov.uk/20100111133411/http://www.competition-commission.org.uk/rep\\_pub/reports/2009/fulltext/545\\_10\\_7.pdf](http://webarchive.nationalarchives.gov.uk/20100111133411/http://www.competition-commission.org.uk/rep_pub/reports/2009/fulltext/545_10_7.pdf)