

Outzen Gregory

From: Sejual Shah [Sejual.Shah@oft.gsi.gov.uk]
Sent: Thursday, 29 January 2004 9:28 PM
To: Gregory.Outzen@acc.gov.au
Cc: amanda.dadd@acc.gov.au; isabelle.arnaud@acc.gov.au; tim.grimwade@acc.gov.au; Claire Hart; Justin Coombs
Subject: RE: ACCC seeking assistance on Heathrow access issue

Dear Mr Outzen

There'd be no problem with my reply being put on the ACCC public register.
Kind regards

Sejual

>>> Outzen Gregory <Gregory.Outzen@ACCC.GOV.AU> 28 January 2004 21:26:49 >>>
Dear Ms Shah

Thank you very much for the information you have provided. It will prove very useful. Would the OFT have any problems with your reply being put on our public register?

Kind regards to yourself and the OFT aviation group.

Greg Outzen

-----Original Message-----

From: Sejual Shah [mailto:Sejual.Shah@oft.gsi.gov.uk]
Sent: Wednesday, 28 January 2004 9:04 PM
To: Gregory.Outzen@acc.gov.au
Cc: amanda.dadd@acc.gov.au; isabelle.arnaud@acc.gov.au; sharon.clancy@acc.gov.au; tim.grimwade@acc.gov.au; Claire Hart; Justin Coombs; Tom Sheehan
Subject: Re: ACCC seeking assistance on Heathrow access issue

Dear Mr Outzen

I have recently joined the aviation team at the OFT. Justin Coombs asked me to reply to your query regarding slot congestion at Heathrow (LHR).

We are aware of various pieces of evidence that might support the view that London LHR is slot constrained and effectively full at peak periods, and that London Gatwick (LGW) suffers similar although lesser problems.

Your team may find it useful to look at documents from the British Airways/American Airlines application held by the DOT on their web site. Whilst the analysis relates to trans-atlantic routes, there are useful parallels to be drawn between trans-atlantic long haul and super-long haul flights in terms of terminal and parking facilities and other airport facilities that would be required for both types of journeys.

You may find 4 documents from the BA/AA application of help in your work. These are:

1. Questionnaire dated 19 September 2001 sent by the DOT to British Airports Authority (BAA) and Airport Coordination Limited (ACL) with questions on slots and facilities at London airports.

US DOT Docket OST-2001-10387-60
http://dmses.dot.gov/docimages/pdf74/139043_web.pdf

2. ACL's response to the DOT questionnaire. ACL is a UK based company that is the coordinator of slots at LHR and LGW (amongst others). Answers to Question 3 in particular highlight the strategic difficulties faced by new entrants in obtaining slots at LHR and LGW. In addition, ACL observes that

'there is a general unwillingness on the part of incumbent Heathrow carriers to divest of slots and the market is illiquid'.

US DOT Docket OST-2001-10387-81.
<http://dmses.dot.gov/docimages/p64/140420.pdf>

3. BAA's response to DOT's questionnaire.

US DOT Docket OST-2001-10387-79.
http://dmses.dot.gov/docimages/pdf71/140418_web.pdf

4. BAA's paper on Issues and Principles which is ancillary to its response to the questionnaire.

US DOT Docket OST-2001-10387-80
http://dmses.dot.gov/docimages/pdf71/140417_web.pdf

Whilst the responses from ACL and BAA are based on data from Summer 2000 and 2001, recent press articles regarding the exchange of slots at Heathrow might also suggest that LHR is congested as slots are bought at auction at high premiums thus favouring incumbents or those able to raise substantial amounts of capital.

For example, The Financial Times (FT) recently ran the story on 21 January 2004 that BA was outbid for slots by Qantas and Virgin setting a new record for prime daily slots at LHR. It notes that there are virtually no free slots during most of the airport's operating hours and reports that Qantas is understood to have paid £20m for two pairs of slots, Virgin paid £20m for four slot pairs. The market rate in previous deals had valued a prime slot pair at between £5m and £6m.

Other articles from the FT which indicate the tensions that can arise between airlines when exchanging slots at Heathrow are:

- October 17 2003: Slotting into place
- October 15 2003: BA attacked for buying further Heathrow slots
- October 14 2003: BA finds further slots for growth at Heathrow
- October 14 2003: The slot machine
- October 13 2003: BA acquires Heathrow slots from UAL
- September 22 2003: Swiss joins BA's Oneworld Alliance

Please let me know if you would like any help in accessing these articles, or any other further information.

Kind regards

Sejual Shah (Miss)
Principal Case Officer

>>> Outzen Gregory <Gregory.Outzen@ACCC.GOV.AU> 19 January 2004 21:55:51 >>>

>
Dear John, Justin and Joos

As you may be aware the ACCC is currently considering an application from Qantas and British Airways for the renewal of immunity for their Joint Services Arrangement (JSA).

The JSA provides for the coordination of airline services between Qantas and BA on routes between Australia and South East Asia, Australia and Europe, and South East Asia and Europe. The coordination embraces scheduling, marketing, sales, freight, pricing and customer service activities.

An important element of the Commission's analysis is the identification of existing or potential barriers to competition. In this regard the Commission is interested in any impact access to slots at Heathrow might have on the ability of Qantas, BA or Asian mid-point carriers such as Thai, Singapore Airlines, Cathay and Emirates to expand their services to meet

demand over the next 4-5 years. The issue is particularly relevant for point to point business travellers.

Qantas and BA have provided the Commission with a paper (attached) which claims to demonstrate that access to slots at Heathrow does not constitute a barrier to entry or expansion on the JSA routes.

Qantas and BA in their paper have pointed to historic growth in capacity at Heathrow by the midpoint carriers over the past ten years and the ability to trade slots with other carriers as indicators that there is no barrier. However given the recognition paid to slot access by other regulators and the acknowledgement of capacity constraints at Heathrow in the recent UK Government Report "The Future of Air transport" it seems to the Commission that the ability of midpoint carriers to grow at historic rates cannot be assumed.

I would be grateful for any assistance you might be able to provide the Commission in gauging the extent of any barrier constituted Heathrow access, either in the form of comment on the issue generally or on the Qantas /BA paper or by reference to appropriate material or cases. I note that slot access has been an issue in substantial alliance cases involving the Atlantic trade

Where the Commission is provided with information by third parties for use in its assessment of authorisation applications it is usual for that information to be put on the Commission's public register. It is also open to third parties to seek confidentiality for information provided.

Best wishes for hopefully a better new year

Kind regards

Greg Outzen

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