

British Airways submission to the Airport Commission

Discussion Paper 01: Aviation Demand Forecasting

15 March 2013

The Airport Commission publication of February 2013: "Discussion Paper 01: Aviation Demand Forecasting" has some questions on which evidence would be welcomed. British Airways (BA) has considered the 16 questions and has a small number of comments to make. In some cases we do not think we have clear enough information about the workings and assumptions of the DfT model to be sure of our understanding.

Q2.

What impact do you consider capacity constraints will have on the frequency and number of destinations served by the UK?

- Without more hub capacity BA anticipates the breadth of destinations served at the hub will be reduced. New services to emerging markets will not start and frequency to more mature destinations will be cut to maintain competitive service on a core set of developed markets.
- BA anticipates remaining UK point-to-point (p2p) airport capacity will be used for a combination of increased frequency and breadth of destinations, primarily to shorthaul international destinations with a leisure-purpose bias. There may also be limited additional international service from overseas hubs, acting as a one-stop gateway (as European, Middle East and American hubs do today) from these p2p airports.
- A reduction in night flight capacity would also directly result in cuts to destinations and frequency, as the economic viability of these services is dependent upon the appeal of their departure and arrival timings.
- Future capacity assessment must consider carefully the location of expanded capacity. Passengers will not support a service if the airport is poorly sited, and then new capacity will be ineffective in correcting the damage already being done by current constraints.

Q4.

How could the DfT model be strengthened?

- The model does not appear to understand how differing airline business models affect the choices airline planners have, such as when choosing whether to start a new route or not. There is an automatic presumption an airline will start a route if "sufficient" demand is available. This is not the case for airlines based within or outside the UK, where there is also an option to fly elsewhere or not fly at all.
- There may be a bias towards predicting airline provision of a new non-stop service rather than a flight via a hub, particularly from the UK's non-hub airports in London and the regions. It is not clear how the model assesses the likelihood of these options.

- Airports assumed by the model to be possible hubs in the future are LHR, LGW, STN and MAN, but it is not clear what assumptions are made on the likelihood of an airline choosing to operate a hub business model at these airports.
- The model does not seem to reflect the implications of different airline business models on the connectivity offered, such as hub networks, alliance co-operation, airline consolidation and joint business support for hub services.
- It is not clear whether the model can reflect the characteristic of a hub to aggregate demand from across its network to support new non-stop service to markets otherwise too small to generate sufficient demand for an economically viable service, and whether the model can distinguish between airports that host airlines operating in this manner and other airports that do not.

Q6.

How well do you consider that the DfT's aviation model replicates current patterns of demand?

- It is not clear what is assumed to be "sufficient" demand for a new route to be economically viable, what the minimum service frequency or schedule seasonality is assumed to be and how realistic this schedule is in reflecting actual efficient airline operational practice
- It is not clear whether reported new routes are non-stop or via a hub, and if that hub is in the UK or overseas.
- It is not known what adjustment, if any, is made to demand if a one-stop over a hub is offered by airlines instead of a non-stop flight. This should have a dampening effect and cause some demand to select an alternative destination or not fly.
- It is unknown whether the model assumes additional demand to a destination is stimulated if a non-stop service is added where there was none previously.
- The model appears to understate the degree of global competition today between hub airlines and airports for connecting flows (only 3 European and 1 Gulf hub are cited, no others in these regions and none in Asia or the Americas).

Q9.

Do you consider that the DfT modelling approach presents an accurate picture of current and future demand for air travel?

- The model is correct to limit LHR passenger throughput in the absence of new capacity. It is not possible to tell if all the implications of this limit upon the connectivity offered are realistic. Detailed data is not provided at airport level, particularly a longhaul/shorthaul split; but international destinations served at least daily are forecast to be the same in 2030 as 2011 (Table 5.8) and BA expects a decline if UK hub airport capacity remains constrained.
- Modelling of the future may over-credit UK regional and non-hub airport significance for longhaul travel. It's not possible for us to be certain, as the data is not provided at airport and haul length level.
- It is not clear what the assumed quality of service to a destination is (i.e. multiple daily flights, daily, 3 per week, 2 per month) at any particular airport, as the data is not provided.

- Some DfT material (e.g. annex E11) quote a destination as being served if it has more than 5,000 passengers per year 'allocated to it'. It is not clear if this service is assumed to be non-stop or via a hub. 5,000/year equates to less than 7 passengers per day each way, a bar far too low to be a useful indicator.
- The model understates current use of overseas hubs by UK demand, and also in the future, showing this falling between now and 2040 (annex E6). BA expects the reverse if UK hub airport capacity remains constrained.

Q12.

What factors, if any, are missing from the DfT's modelling approach? How can these be more effectively analysed?

- Unaffordable airport user charges (to fund expansion or as a result of weak regulation of inefficient monopoly suppliers) will cause airlines to reconsider their capacity allocations. This cost is contained within 'other' costs of the journey in the DfT model and this is assumed to decline over time, but airport charges have only increased above inflation in recent years. Passenger demand can be affected, and airlines also have choices when exposed to rising costs, including shrinking capacity, with detrimental effects for UK connectivity.
- Building a broader understanding of how aviation hubs can drive increases in connectivity far in excess of what the underlying local market can support. SIN, HKG, AMS and the Gulf hubs DXB and DOH will serve as a good examples of the value created through hosting a hub, something the DfT model may not reflect accurately.

Summary

Our concerns can be broadly summarised as follows: We are not certain the DfT model can reflect how airline business models will influence the development of connectivity or the ability of airports to serve the demand forecast. This is particularly true of hubbing airlines, longhaul international connectivity and the ability of airports to meet future longhaul demand.