

Response to Aviation Demand Forecasting Discussion Paper

•• How effectively do the DfT forecasts capture the effect on UK aviation demand of trends in international aviation?

The model uses a necessarily complex process – but some key areas lack transparency. In particular I would query in the ATM demand model the decision-making process of allocating particular Laramie graphs to particular routes and also raise the question of how well existing Laramie graphs based on historical experience are able to model the introduction of “game-busting” new families of aircraft such as the Boeing 787 Dreamliner which permit economic operation of smaller size long-haul point-to-point flights. It is not clear that this effect has been adequately explained in the 2013 forecasts.

For discussion of Laramie graphs see the comments of the peer reviewer of the 2011 forecast in section 3.1 of

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/4506/review-napalm.pdf

•• How well do you consider that the DfT’s aviation model replicates current patterns of demand? How could it be improved?

See comments on the ATM demand model above

• Do you agree with the source of the input data and assumptions underpinning the DfT model?

I do not agree that the assumption regarding future oil prices is at all valid.

“3.11 Oil prices are held constant in real terms (i.e. assumed to rise in line with inflation) from 2030 onwards.”

This may well be DECC policy, but it is manifestly unreasonable and a very dangerous assumption on which to base long term investment to 2050 and beyond. It would be safer to continue to extrapolate the rise in oil prices to 2030 to the period beyond that date, rather than assume constant real prices after 2030.

The sharp change of gradient in the oil price curve in Box 8.1 is very evident and there appears to be no rational explanation why this policy decision is taken. The effect is to swell demand post 2030 which is probably not justified.

Passenger Survey

“2.49

Importantly, this means that in the forecasts the effect of capacity constraints on the numbers of air passengers using UK airports takes into account capacities at all airports, and is based on passengers’ observed airport choice behaviour.”

I believe that the travellers preference for particular airports is taken from the 2008 CAA Passenger Survey. I do not understand why more recent surveys have not been used. Important changes have taken place in the UK market since 2008 (the opening of Heathrow T5, reduced domestic flights to London, improved links to continental and Middle East hubs from regional airports, the break-up of the BAA monopoly to provide real competition in the London airport market.....). It is quite possible that preferences have changed since 2008 and it seems wrong not to take account of this possibility.

.. Do you consider that the DfT modelling approach presents an accurate picture of current and future demand for air travel? If not, how could it be improved?

I consider that the assumption regarding future oil price is a major error.

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

I think the model accepts the current status quo of airport operation and fails to explore the possibility of more interventionist measures to balance demand.

In particular, I would mention the possibility of

Differential APD – use fiscal measure to discourage demand at congested airports

Slot reform – discourage the wastage of slots at congested airports by airlines operating many small planes at high frequency to the same destinations.

I also believe that capacity is currently used sub-optimally and the CAA proposals to get airports to properly review the capacity management guidelines to take all appropriate factors into account and to ensure that there are proper incentives and proper policing to maintain discipline of operating to allocated slots.

.. Does the DfT approach to demand uncertainty capture a reasonable range of uncertainty? Could the approach be improved?

I consider that the DfT grouping of factors may hide reasonably possible low-demand scenarios.

“combine alternative projections for a number of input variables, for example, the low demand scenario combines the low GDP, low oil price and high market maturity sensitivities, along with changes to assumptions about some other variables.”

I do not think it is impossible for the UK to suffer from low GDP but also to experience high oil prices caused by booming demand in other countries.