

Aberdeen International Airport

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Submission by Aberdeen International Airport to the Airports Commission Discussion Paper 01: Aviation Demand Forecasting

Background

Aberdeen International Airport (AIA) is Scotland's third busiest airport, handling 3.3 million passengers last year. In 2011, the airport was the UK's fastest growing, with passenger numbers increasing by almost 12% in the year¹. Passenger numbers are forecast to grow to 4 million in 2020 and 5.09 million in 2040.

The airport offers a wide range of scheduled services, around half of which are to major UK cities, including London, Manchester, Leeds, Bristol, Cardiff and Belfast, as well as the Scottish Highlands and Islands.

Aberdeen also provides access to a number of key international hubs including Dublin, Paris, Amsterdam, Copenhagen and Frankfurt. The airport also provides links to a range of destinations that relate to Aberdeen's position as Europe's oil capital, including Bergen and Stavanger. This role as an energy gateway also makes Aberdeen Europe's busiest commercial heliport and results in the airport having a higher proportion of business passengers (circa 60%) than most other UK airports.

Forecasting and investment

AIA welcomes the opportunity to contribute to the important work now being undertaken by the Airports Commission.

We look forward to submitting our detailed evidence in the spring. In the meantime, we have some comments in respect of the Commission's discussion paper on Aviation Demand Forecasting.

AIA, in common with many large airports, prepares regular passenger forecasts, which are published every five years in the airport's long term Master Plan. These forecasts provide a basis from which to plan for future terminal investment and development; including, for example, the provision of additional

¹ CAA data 2011 for airports over 500,000 passengers

car parking, check in desks, baggage belts, retail and catering facilities and lounge capacity.

Forecasts also enable us to determine the number of future air transport movements, peak runway movements and aircraft stand demand. This allows us to plan and build additional aircraft stands, taxi ways and runway capacity in a timely fashion.

In common with the Department for Transport, AIA uses a standard econometric framework to establish the relationship between growth in demand for air travel, key economic factors and other important external factors that influence demand.

These include growth in UK and world Gross Domestic Product, the prospects for international trade, changes in the price of air travel, future trends in aircraft manufacture (including aircraft size and range), the degree of market maturity and the possible effects of competition from rail and telecommunications.

Another important economic consideration is the expected course of oil prices, which is of particular significance to AIA as the gateway to Europe's oil capital. Allied to this, the long term prospects for oil and gas exploration and production in the North Sea are also taken into consideration.

Increasingly, our forecasts have also had to consider the impact of Government taxation on passenger demand, specifically Air Passenger Duty (APD). A recent joint study, published by Aberdeen, Edinburgh and Glasgow airports, found that since 2007, rates for short haul travel have increased by around 160%, with long haul rates increasing by between 225% and 360%. As a result, the UK has the highest level of APD of any major European country. The report concluded that planned increases in APD will cost Scotland more than two million passengers per year by 2016, with Aberdeen forecast to lose some 200,000 passengers alone. The report also suggests that APD will cost the Scottish economy up to £210 million per annum in lost tourism spend.

As the Commission's own analysis has shown, trends in air travel can be shaken by a range of economic factors such as recession or oil prices, or by international events like military conflict and terrorism. Increasingly, environmental/weather factors are also impacting on demand, as the effects of the volcanic eruption in Iceland and the severe winter disruption of 2010 illustrate. As climate change accelerates, forecasting models will need to take account of the likely impact on travel patterns.

Forecast elasticity

As the Commission's discussion paper notes, demand is often cyclical and has a tendency to recover as the economic situation improves.

For example, in 2007 – just before the downturn – AIA recorded its highest ever passenger throughput, with 3.4 million annual passengers. Thereafter, passenger numbers fell in 2008 (3.3m), 2009 (2.9m) and 2010 (2.7m). However, by 2011,

as market conditions improved, passenger numbers began to increase to almost 3.1m, and by 2012, the airport had almost returned to its record high, with 3.3m passengers.

Nevertheless, the global downturn has had a significant impact on demand at airports across the UK, including Aberdeen, and led to a reshaping of projected demand.

In its 2006 Master Plan, Aberdeen Airport forecast that it would reach 3.8 million passengers by 2015 and 5.1 million by 2030, an average growth rate of 2.3%.

However, between 2006 and 2012, overall passenger numbers actually declined by around 40,000, as a result of the recession.

As a result, our revised 2013 Master Plan forecast more modest growth going forward, with 4 million passengers in 2020 and 5.09 million in 2040. This represents an average growth rate of 2% per annum, broadly in line with DfT forecasts.

This is not to say that our 2006 forecasts were wrong; they reflected the buoyancy of the aviation market at that time, during a period of sustained economic growth and strong consumer spending. That is why it is important that forecasts are reviewed regularly to ensure they remain relevant, and reflect changing economic circumstances.

In more recent years, as the economy has recovered, growth has accelerated. In 2011, for example, passenger numbers at Aberdeen grew by almost 12%. It is important therefore that we view forecasts over the long term. Development needs cannot be viewed through the prism of short term trends.

Impact of capacity constraints

Current DfT forecasts indicate that passenger numbers in the UK will grow at a rate of between 1% and 3% per annum, with the volume of traffic more than doubling between 2011 and 2050. Given the current capacity constraints at a number of our larger UK airports, particularly Heathrow but also increasingly Gatwick, it is self evident that this growth cannot be accommodated without a significant increase in airport capacity, not just in the south-east, but across the country.

For our part, Aberdeen International Airport plans to invest some £45 million over the next ten years to provide additional terminal and airfield capacity, including a major redevelopment of the terminal building, additional aircraft stands and new taxiways. Longer term, we have safeguarded land to allow us to extend our runway, if demand requires it.

Investment in our airport infrastructure is essential if the UK is to compete on the international stage.

With airports across Europe and the Gulf investing heavily in additional runway

capacity, the UK is in danger of losing its long held status as the world's aviation hub. Frankfurt has recently opened its fourth runway, Amsterdam is planning its seventh runway and a new international airport has opened in Dubai. The recent announcement that Turkey intends to build a new six runway hub is a further illustration of the challenge facing the UK.

Airlines such as British Airways and Etihad have recently warned that the lack of capacity in the south-east and Heathrow, in particular, is harming Britain's competitiveness and will ultimately damage the UK's ability to attract new airlines and routes.

Many of Heathrow's European rivals – Amsterdam, Paris CDG and Frankfurt, for example – offer a more extensive global network of destinations, particularly to the emerging markets of Brazil, India and China. With significantly more runway capacity, all three are expected to overtake Heathrow in terms of passenger numbers by 2020.

There are implications too for the UK regions if we fail to provide this additional hub capacity.

Regional airports such as Aberdeen International rely heavily on access to London, and Heathrow in particular, both for point to point and connecting traffic. This reflects London's status as a world city, and Heathrow's status as a world hub.

Indeed, despite links from Aberdeen to Copenhagen, Dublin, Paris CDG, Amsterdam and Frankfurt, Heathrow remains the hub of choice for passengers in the north east of Scotland, accounting for more traffic in 2012 than these other hubs combined.

Aberdeen is relatively well served, with flights to four major London airports, and two carriers operating on the busy Heathrow route.²

However, the number of regional airports with direct links to Heathrow has fallen substantially. There are now only eight regional UK airports with Heathrow services – compared to 18 in 1990. Paris CDG and Amsterdam are now connected to more regional UK airports than Heathrow, and other European and Gulf hubs such as Frankfurt and Dubai are increasingly better connected to the UK regions, providing an attractive alternative to Heathrow.

This is simply because Heathrow is full and any available slots at the UK hub are prioritised for more lucrative European and long haul routes, at the expense of domestic services. Without additional capacity, regional airports can no longer take access to the UK hub for granted.

The lack of capacity at Heathrow therefore has implications, not just for the south east, but for regional airports across the UK.

² British Airways and Virgin Atlantic (due to begin operations in April 2013).

Until now, the debate about air capacity has been heavily centered on London and the south east. Given the size and strategic importance of many of the south east airports, particularly Heathrow, this is entirely understandable. However, with around 40% of the UK market share, regional airports perform a vital role in connecting the UK to business and leisure markets around the world. We would therefore urge the Commission to consider the interests of regional airports outside London and the south east as it develops its ideas for the future of UK aviation.

Finally, in terms of the effectiveness of DfT forecasts, others will have a more expert view. In our view, the DfT model provides a useful starting point and very much mirrors our approach. However, judgements on the future of UK aviation cannot be made on the basis of UK forecasts alone; it will be necessary to draw from a wide variety of international forecasting tools in order to paint a fuller picture of the likely demand for air travel. The aviation industry is a global market, after all.

We welcome the opportunity to respond to this process, and look forward to continuing our dialogue with the Commission.

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