Discussion Paper 02: *Aviation Connectivity and the Economy*: Response from Manchester Airports Group (M.A.G)

INTERIM RESPONSE

This interim response has been prepared by Manchester Airports Group Plc (M.A.G) to address the questions and issues raised in the Airports Commission's Discussion Paper No. 2 on Aviation Connectivity and the Economy.

Following M.A.G's recent acquisition of Stansted in late February 2013, we have prioritised the work needed to support the development of our submission on short and medium term options in May, and long term options in July.

We advised the Commission on 28 March 2013 that this prioritisation of resources meant that we would need a short amount of additional time to be in a position to provide a full response on Aviation Connectivity and the Economy. It was agreed with the Commission that it would be helpful for M.A.G to make an interim response to indicate how a more detailed response will be structured and to provide an overview of the ground it will cover in terms of argument and evidence.

1 Introduction

1.1 M.A.G welcomes the opportunity to respond to the Airports Commission Discussion Paper 'Aviation Connectivity and the Economy', which we believe is a crucially important aspect of the Commission's work.

1.2 M.A.G owns and operates four airports in the UK (Manchester, London Stansted, East Midlands and Bournemouth) and handles 42 million passengers per year. As an operator with interests in both London and in the UK regions, M.A.G is well placed to comment on aviation, connectivity and the economy.

1.3 Stansted is the third largest airport in the London 'system' and the market leader in low cost and European connections. Operating at less than half its runway capacity and with planning permission to grow to 35 mppa, we are confident that Stansted will play a growing role in facilitating connectivity from London and the East of England.

1.4 Under M.A.G's ownership, our focus will be to drive Stansted forward by attracting new airlines to the airport and encouraging our existing airlines to develop new services. When considering future connectivity, it is important that the Commission's thinking is not constrained by the current distribution of traffic between the London airports. The current traffic distribution is, in part, a product of the common ownership of the main London airports over the last thirty years.

1.5 In separate ownership, it is already clear that Stansted and Gatwick have strong ambitions to 'shake-up' the historic distribution of traffic. This new competitive dynamic is a factor that we believe will deliver greater connectivity in the future, and is something that the Commission should look to nurture and encourage.

1.6 Manchester Airport is the largest airport outside the South East, a key driver of the UK economy, and also home to the UK's first 'Airport City'. It is twice the size of the next largest regional airport and offers multiple daily services to a wide range of hubs in the UK, Europe, the Middle East and the US. This sets Manchester apart from other regional UK airports – its traffic base includes a wider range of full service network carriers than any airport other than Heathrow (including Gatwick). This provides a platform for an increasingly important role in meeting the UK's future connectivity needs.

1.7 East Midlands Airport plays a national role as the UK's largest express freight hub, as well as being a key regional airport serving the Midlands and part of the East of England, while Bournemouth provides leisure flights and long haul connections via Dublin. Our airports therefore have a major role to play in supporting and delivering UK connectivity.

1.8 M.A.G welcomes the Commission's appreciation of the significant role aviation connectivity plays in supporting the UK economy and promoting economic growth. That said, we are concerned that the approach set out in the Discussion Paper does not adequately reflect the national <u>and</u> regional need for connectivity, being too focused on that which is available from airports in London and the South East (and from Heathrow in particular). Global connectivity is already provided either direct or one stop via European, US and Middle East hubs from a range of UK regional airports. We are keen to ensure that the need to enhance connectivity by making best use of existing regional airports is not lost in the debate about capacity in the South East.

1.9 In summary, M.A.G believes that:

- Enhancing connectivity to global markets is critical. Global connectivity is a vital enabler in delivering economic growth. The sectors that benefit most from connectivity are those associated with high value, specialist or knowledge-intensive activities with an international outlook. These are also some of industrial sectors on which the UK economy will rely most in generating future economic growth. We will be commenting extensively on the economic importance of connectivity and the policy measures that may be needed to improve it at UK airports. We will also address why connectivity is important in facilitating the efficient movement of economic resources (i.e. materials/parts, people and finished products/services), to and from long-distance intra or inter-continental points of supply, processing, sale and servicing within other economic sectors.

- Connectivity is about more than just UK hub capacity. It is about linking cities, which are the focal points for the majority of world GDP – a trend which is expected to continue and be reinforced.[1] To get an in-depth understanding of

[1] McKinsey Global Institute: Urban World – Mapping the Economic Power of Cities (March 2011)

aviation connectivity and its implications, we believe the Commission will need to undertake further work so that it is able to examine the issue at 'city' level, both in relation to the UK and overseas.

- We acknowledge the economic significance of Heathrow, its importance as a hub, and its importance to UK plc in providing global connectivity. However, London is a global city with one of the largest origin and destination markets in the world. Thus, whilst Heathrow is an important airport within the London system, hubs are by no means the only model for expanding connectivity. We also believe that the scarce capacity at Heathrow, the UK's principal hub airport, is not used as efficiently as it could be, and if it were then there is material scope for increasing both international and UK regional connectivity from there over the next 5-10 years.

- Other London airports, particularly Stansted and Gatwick, have a significant role to play in supporting connectivity from the capital. Stansted provides exceptional connectivity to European markets and has significant excess capacity which, taken together, provide a strong opportunity to enhance London's global connectivity.

- **UK connectivity is a national issue.** Businesses and passengers elsewhere in the UK value having the option to fly from their local airport where possible. For many parts of the UK, transferring over, say, Amsterdam or Dubai provides global connectivity options and a passenger experience which is superior to having to travel by either road, rail or air to make a connection from a London airport.

- In addition, due to its location and network range and depth, Manchester Airport is already an international gateway providing connectivity for a significant proportion of Britain. We aim to develop direct global connectivity further, with recently launched services to Washington and Moscow underlining this trend. By 'clawing back' some of the traffic originating in the region that currently 'leaks' to the London airports, Manchester can both ease the pressure on the South East airports and develop the routes and services (e.g. China) needed to support regional economic growth that are difficult to sustain from other regional airports in the UK.

- **We need a broader definition of connectivity**. While direct links are important, indirect routes offer important competing alternatives, often with lower fares and greater consumer choice. Foreign hubs also play a role in meeting UK connectivity needs. Similarly, the importance of frequency varies according to whether the purpose of travel is business or leisure, or whether the journey is short-haul or long-haul. A 'one-size-fits-all' approach is not appropriate.

1.10 M.A.G airports have a major role in delivering connectivity for the United Kingdom. We look forward to working with the Commission to explore the best means of promoting UK connectivity in the longer term. We urge the Commission to interpret its remit from Government relating to aviation connectivity through a broader lens than simply that of addressing hub capacity in the South East.

1.11 We would encourage the Commission to:

(i) embrace a sophisticated and multi-layered approach to considering the issues, that will ensure there is a range of domestic and international connectivity (for leisure and business) for all parts of the UK.

(ii) recognise the role that regional airports can make to meeting the objective, as well as contributing to an integrated approach to meeting South East airport capacity shortages by 'clawing back' more of the traffic that originates from within their catchment areas that currently travels to London airports for onward travel.

(iii) recognise the extent to which all airports in the London area – not just Heathrow – contribute to the region's connectivity needs, and commit to investigating how this might be enhanced further.

2 The structure of our submission

2.1 M.A.G's full submission to the Commission will address each of the questions raised in the Discussion Paper. This interim submission is structured around the following key areas, which will form the basis of our full response on 3 May:

- Defining Connectivity: our approach
- Connectivity at M.A.G airports
- Delivering Connectivity: London system
- Delivering Connectivity: beyond London
- Delivering Connectivity: freight

3 Defining connectivity: our approach

3.1 Chapter 2 of the Discussion Paper sets out a brief overview of aviation connectivity in the UK and provides suggestions on how connectivity should be defined and measured.

3.2 We believe that connectivity should not just be measured in terms of the number of 'direct' routes that meet an appropriate frequency threshold, although this does provide one basic and easily understood metric. Connectivity should also take into account indirect routings, which are often a competitive alternative for mid and long haul destinations, especially if they result in: (a) greater frequency, (b) one stop access to a wider-range of destinations, and (c) lower fares as a result of greater competition between carriers.

3.3 With regard to frequency, while year round/daily services are a useful starting point, there is a danger that they might represent a misleading picture. For example, a daily service on a Monday-Friday services might provide an adequate level of connectivity on some routes, while other routes, predominantly business, may require at least two services per day to allow for return trips. Similarly, different frequency 'thresholds' may apply when comparing short haul and long haul routes. We do not believe that a weekly service is a reasonable basis upon which to judge levels of connectivity.

3.4 In developing its consideration of connectivity, the Discussion Paper reviews the role of Heathrow and Gatwick, but largely overlooks the role of other UK airports. We would encourage the Commission to adopt a more balanced and diverse approach to considering how the UK's connectivity needs should be met. For instance, Stansted's strength in the European market and its capacity for growth under new ownership – particularly into new markets – should not be undervalued in the connectivity debate. Similarly, it is not correct to categorise Manchester Airport (as in 2.14 of the Discussion Paper) as simply one of the 'other UK airports also providing valuable direct connectivity in the short haul market'. The significance of Stansted and Manchester, and East Midlands for UK air freight, will be outlined further in our full submission.

3.5 Consideration of connectivity needs to reflect the economic importance of air links both now and in the future. Considerable emphasis is placed on the importance of links to BRIC economies in the current debate on future capacity. Whilst undoubtedly these links are important, we should not lose sight that the BRIC economies form a relatively small proportion of UK global trade. The importance of connectivity to key markets in Europe and United States should not be lost in a narrow debate about links with BRIC countries – as important as these economies are for future growth.

3.6 Consideration of how airlines provide connectivity is also important. Airlines will use capacity in a way that maximises return on capital employed – whether this is aircraft or slots. As economic linkages develop and demand grows, evidence of airline behaviour suggests that scare slot capacity is used to accommodate this demand – British Airways', China Southern's and Aero Mexico's new services from Heathrow to Chengdu, Guangzhou and Mexico City respectively illustrate how new services can be accommodated, albeit by displacing slots used on other services.

3.7 Understanding how connectivity is delivered by airlines, which in turn are responding to underlying demand, will be explored further in our response on operating models.

4 Connectivity at M.A.G airports

4.1 Our full submission will set out a picture of current direct passenger service connectivity from M.A.G airports, using 2012 data where possible.

4.2 We will then provide some benchmarking of M.A.G airports against connectivity networks and frequencies available from:

- Other UK airports
- UK regional airports

- Peer airports in Europe (i.e. secondary airports in large cities or airports serving second cities in large countries or primary cities in medium sized countries e.g. Munich, Barcelona, Berlin, Lyons, Paris Orly, Dublin, Milan, Geneva, Stockholm, Oslo, Helsinki, Vienna, Brussels, Copenhagen)

4.3 The above will be accompanied by supporting text, explaining M.A.G airports' relative position/performance and how this can be further developed to optimise future connectivity.

4.4 We will also highlight those routes where we believe demand is already sufficient to support new routes.

5 Delivering connectivity: London system

5.1 The Commission highlights in its paper that London is already one of the best connected cities in the world. It is a central task of the Commission that it makes recommendations to maintain and promote that position.

5.2 Our full response will explore how Stansted contributes to the overall level of connectivity that London currently enjoys, and the role it could play in providing future connectivity – particularly given it is the only major London airport with excess capacity during peak hours.

5.3 These themes will be developed further in our response on operating models and short and medium term policy options for optimising the use of existing airports, where the importance of surface access will also be explored as an enabler of connectivity.

6 Delivering connectivity: beyond London

6.1 All UK regions need access to international connections. Manchester in particular is a key national asset that can contribute to national connectivity, as well as being an enabler of economic growth in the North of England. By delivering improved connectivity outside London, this will bring benefit to the regional economies of the UK, as well as easing some of the pressure on the busy London airports.

6.2 We will present data which illustrates the volume of traffic that 'leaks' to London and which could use M.A.G airports if the services were available.

7 Delivering connectivity: freight

7.1 Connectivity applies as much to freight as to passenger services and both need to be considered as part of the overall connectivity picture.

7.2 M.A.G operates two of the UK's largest cargo airports. East Midlands and Stansted both perform critically important roles in connecting the UK with the global integrator and express freight markets. We will provide data on economic value of imports/exports using our airports.

8 Questions

We will explicitly address the questions raised in the Discussion Paper in our full submission.

M.A.G

22 April 2013