

British Airways submission to the Airport Commission**Discussion Paper 02: Aviation Connectivity and the Economy**

19 April 2013

British Airways (BA) has considered the questions in the Airport Commission publication of March 2013: "Discussion Paper 02: Aviation Connectivity and the Economy" and has a small number of comments to make. These are intended to offer our perspective on the connectivity debate and the effect new aircraft technology could have.

Summary

A consideration of connectivity should include the quality of the offer, and within this it is important to consider a realistic measure of frequency of service, the amount of competition and the convenience of the airport location.

It is airlines that decide whether to provide the connectivity, not airports. Airlines based in the UK must deploy their aircraft there, to the benefit of UK connectivity; but those based overseas have a choice. The UK will not necessarily win a link from them.

The potential for new efficient aircraft types to offer a step-change in UK connectivity is limited, and has been overstated by some airports. These new aircraft types perpetuate the hub model rather than make it redundant. The greatest connectivity gain for the UK will be via the orders placed by British Airways, flying from London. Airlines based overseas offer just three new connections for London (and these will only be 'new' if no UK-based airline chooses to serve them in future).

All overseas airlines with the orders and potential to fly new efficient aircraft to a UK regional airport are already flying to London, so it is clear the UK regional airports cannot act as an alternative to London for these airlines. It is also clear that these airlines overwhelmingly favour Heathrow when flying to London.

The overseas airlines with these new types of aircraft could equally benefit from their fuel efficiency by flying them elsewhere and will apply their usual network planning assessment to find the best use. They will have many attractive growth markets to choose from. They may feel, as many already do today, that a London link meets their UK market exposure needs.

In contrast, British Airways relies greatly on the UK regions to collect hub traffic support for its longhaul routes at Heathrow. The UK's regional airports have a valuable role to play in facilitating this access to longhaul connectivity over the Heathrow hub. This pathway to increased connectivity offers much more certainty of realisation for passengers in the UK regions than the current strategy of some UK regional airports, which is to campaign to constrain Heathrow hub growth and simultaneously hope to win a fiercely contested global 'beauty contest' for an overseas hub link.

Definition of connectivity

The discussion paper describes connectivity as a relationship between 'directness, availability, reliability and cost'. We think there are some important elements missing. Below is our definition, which we think includes all the considerations customers have when they are choosing how to make their journeys:

- Speed and convenience
 - Direct or connecting flight
 - Frequency of service (not in discussion paper definition)
 - Available capacity
 - Range of flight times (not in discussion paper definition)
 - Convenience of airport (not in discussion paper definition)
- Attractive pricing
- Reliability
- Choice of provider (not in discussion paper definition)

The discussion paper highlights the recent examples of airlines starting routes into Gatwick serving new and emerging markets. This is a small improvement in connectivity for the UK, albeit unproven over time and with some recent failures¹. It is important that an assessment of connectivity by the Commission is capable of recognising that there are connections of different quality, and that the quality of these new connections could be improved over time, for example by increasing frequency, choice of timings and competition between airlines.

Airlines that operate the hub business model are often able to offer a higher quality of connectivity than those that do not. We understand that different airline business models will be the topic of a later Discussion Paper, where the Commission can explore this point further.

The discussion paper could be interpreted as suggesting the Commission considers a transport link to have been established if at least one service a week exists². We believe that an absolute minimum of three services per week, preferably growing over a short period of time to five and then seven; should be the criteria for considering the existence of a quality link. Customers, particularly those travelling for business purposes, prefer the flexibility a high frequency schedule offers. For airlines the cost efficiency of crew utilisation often means that longhaul services are developed in increments of 3, 5 and 7 flights per week.

The discussion paper provides a list of the top ten Nations for GDP growth globally, suggesting this could be an indicator of future aviation demand. All hubs in Europe, Heathrow and its competitors, are geographically well placed to serve all these destinations with a direct service. If the UK has links of inferior quality (e.g. if constrained by available airport capacity) it is unlikely to compare favourably with the connectivity that its competitors will be able to offer.

¹ Heathrow "One hub or none" November 2012. Section 3.6

² Airports Commission discussion paper 2. Section 2.12 "at least weekly"

Connectivity is provided by the airline, not the airport

It is important the Commission recognises that it is the airline that chooses the connectivity business model it operates, not the airport. It is also the case that the UK has only one hub airline operator, British Airways, and that it is because we have chosen to operate this model at Heathrow that it is the UK's only hub.

When connectivity is provided as a spoke from an overseas hub, it is potentially at greater risk of suspension than if provided by an airline that has chosen to invest in basing its aircraft in the UK. This is because the costs of exit (by switching to an alternate non-UK destination) are much lower for a non-UK based airline. This has wider implications than just on connectivity, e.g. employment and tax revenues.

New cost-efficient aircraft

Some airports have cited the availability of new lower cost more fuel-efficient aircraft (the B787 and A350) as having the potential to open up new connectivity options; by increasing the viability of links that at present are uneconomic. A review of current orders ³ identifies 68 named airline customers, with 1,285 orders between them. British Airways has analysed this data to estimate the likely use of these aircraft, and from that the potential new connectivity that the UK could benefit from. As a future operator of these aircraft we feel we are better placed to comment on this than an airport owner is.

First, it is important to recognise that the future cost of jet fuel is uncertain, but the long-term trend is steadily upward. The fuel efficiency benefits may be eroded by increased underlying cost; rather than subsidising low-demand routes or reducing the reliance on economic support from hub feed traffic, as some airports are hoping. Also, in many cases the new aircraft will be used to replace existing older types being retired, they will not all be made available for new growth opportunities.

We calculate that 87% of the 1,285 orders are from airlines operating the hub business model. These aircraft will be operated as most longhaul is today, from the hubs, with hub feed support to improve their economic viability. This reduces the number of overseas airports these types will be based at, restricting the breadth of potential new links. The majority of these hubs already have a link to the UK, to London, and in to Heathrow. We also calculate that just 36% of the orders are for the smallest type (B787-800 at c.210 seats), the one most suitable for opening up new thin (low demand) markets.

London connectivity

Some airlines are too close to the UK for a sensible deployment of widebody longhaul types (e.g. Air Berlin, Aer Lingus). Some have different business models and will not fly to the UK (e.g. Scoot and Lion Air, intra-Asian low cost carriers). 54% of airlines, many with large orders, are already coming to Heathrow (e.g. Qatar, United, ANA, Emirates and American Airlines). There are also two airlines flying to a secondary London airport instead of Heathrow: Vietnam and Iraq airlines.

³ Source: BA analysis of wikipedia (April 2013): "List_of_Airbus_A350_orders", and "List_of_Boeing_787_orders_and_deliveries"

That leaves just two pathways for adding new connectivity to London.

1. The three UK based airlines, currently with a total of 53 orders. British Airways, operating the hub model, and Virgin Atlantic and TUI/Thomson.
2. The six overseas-based airlines.
 - Three, China Airlines, Hainan and Hong Kong Airlines, are all based in cities already linked to London (Taipei, Beijing and Hong Kong respectively)
 - Three, Avianca, LAN and Yemenia, are based in cities currently without a London link: (Bogotá, Santiago and Saana respectively).

Two of the six potential overseas visitors: China Airlines and Hong Kong Airlines, have recently launched and suspended a London service, highlighting the risk of relying on overseas airlines for connectivity.

It is clear to see that the largest impact these new efficient aircraft will have on London connectivity will be from the deployments made by UK based airlines, particularly those of British Airways, which will benefit from hub support. The large number of other orders appears to offer just three potential new destinations.

Summary of London connectivity potential:

	#Airlines	#Orders	% Airlines	% Orders
Airline is too close to the UK	11	151	16	12
No interest in London (Different business model)	9	59	13	5
Already serves Heathrow	37	894	54	70
Already serves another London airport	2	28	3	2
UK based airline	3	53	4	4
Possible new London service from overseas based airlines	6	100	9	8

UK regional connectivity

The same principles can be applied to assess the potential for additional UK regional connectivity. The 'too close' and 'different business model' categorisation also applies in this case as with London. There are airlines that we consider to be serving markets definitely unable to support a UK regional service (e.g. Libyan, Avianca, Air New Zealand, Saudia). However these airlines are all already serving London.

There are a small number of overseas airlines already supporting their hubs with UK regional feed (e.g. Emirates, Qatar, United, Delta and Icelandair). It is possible these airlines could use their new aircraft types to expand further into the UK regions, a decision that would undoubtedly be influenced by the potential for growth at the UK's only hub airport. This is a pathway to some limited enhanced connectivity for the UK regions via a one-stop at the same overseas hubs as today.

British Airways will not deploy its new aircraft to the UK regions; they will all be based in London. Virgin and TUI may do so, and if current flying is a reliable guide then these will be used for longhaul leisure service to the Caribbean and Florida, no change on what is provided today.

That leaves 18 airlines that could decide to invest their expensive new aircraft in flying to the UK regions. All of these are hub operators from an overseas city that already has an existing London service, so if they did they would not add new UK destination connectivity, but could offer more choice, primarily one-stop, to some UK regional customers.

Of these 18 airlines there are 6 (including Cathay Pacific, Singapore Airlines, Thai and Air China) that only have the larger aircraft on order. They are much less likely to deploy these to new thin UK regional routes; instead they will be replacements for retiring aircraft. Singapore has tried and suspended UK regional service previously, highlighting the risk of relying on overseas airlines for connectivity.

The other 12 airlines with the more suitable smaller B787-800 include Air India, Japan, ANA, Kenya and Oman. As all these airlines already serve London their motivation to develop a presence in the UK regions must be reduced, and they must choose what is best for their business: serving the UK regions or the ten high growth markets the discussion paper has highlighted. It seems likely they will choose elsewhere, British Airways would if in their position.

Summary of UK Regions connectivity potential:

	#Airlines	#Orders	% Airlines	% Orders
Airline is too close to the UK	11	151	16	12
No interest in London (Different business model)	9	59	13	5
Unlikely to fly a regional service (Market too thin)	18	193	26	15
Already flying to the regions	9	428	13	33
UK based airline	3	53	4	4
Possible new regional service (But only larger models on order)	6	162	9	13
Possible new regional service (Smallest B787-800 is on order)	12	239	18	19