IATA Response – Discussion Paper 4: Airport Operational Models

The International Air Transport Association welcomes the opportunity to respond to the Airports Commission Discussion Paper 4 on Airport Operational Models. In addition to our comments below, which deal with selected questions from the paper as well as related topics, we are happy to provide more detail based on our worldwide experience if requested.

To what extent do the three potential futures outlined in Chapter 2 present a credible picture of the ways in which the aviation sector may develop? Are there other futures that may be considered?

The global economy's center of gravity is expected to move further away from the UK in the coming decades. Figure 2.8 in the consultation document provides one of several possible illustrations of this transformation. The illustration suggests the UK is further away from the global economy's center then it has been over the past three decades, with the future trend expected to place the global economy's center even farther.

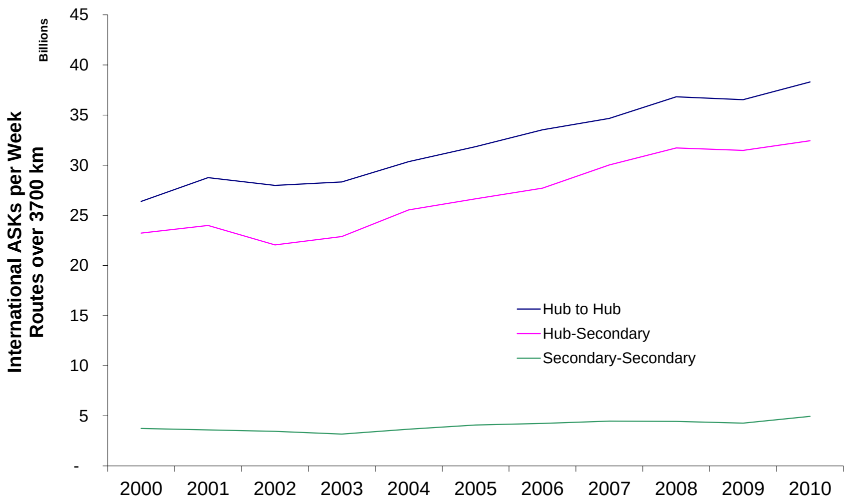
Worryingly, the level of air transport connectivity in the UK relative to other countries is falling. The UK ranked 14th out of 48 countries in 2005, lower than other island economies such as Singapore, Cyprus and New Zealand. In 2009, the ranking fell further, to 24th out of 51 countries analysed[1].

In this context, enabling the development of air transport infrastructure in a way that best supports greater connectivity is of increasing importance to the UK economy moving forward. A focal, or hub airport, optimizes connectivity and will enable the international carriers to meet future demand. A hub adds economic value by facilitating connectivity that could not be supported independently.

How are the trends discussed in Chapter 2 likely to shape the future of the aviation sector? Do they strengthen or weaken the case for developing hub versus non-hub capacity?

Point-to-point markets avoiding hub airports have been developed where origin and destination flows are sufficient to make the economics work. However, for medium and long-haul services the majority of airports still have insufficient O-D flows to justify a daily point-to-point service. Passenger flows need to be aggregated through hubs to make markets viable. As a result the growth in ASKs (for routes over 3700km) in the past decade has been primarily hub-to-hub and hub-to-secondary airport:

[1] "Economic Benefits from Air Transport in the UK," Oxford Economics, 2011.



There have been some high-profile point-to-point 'no-frills' airlines ordering B787s and A350s, such as Air Asia X, Norwegian and Thompson, who clearly will use these aircraft to open up new point to point markets between secondary airports. However, this type of airline represents 28 out of the 891 B787s on order and 25 out of the 613 A350s on order, e.g. 3-4%. The vast majority of these aircraft have been ordered by network airlines. They may use them to open new markets but these are likely to be secondary-to-hub markets, not hub bypassing markets. Most of the aircraft will be used to further improve the efficiency and range of the existing network fleet. This does not support the idea that these new aircraft will make a serious change to hub-to-hub or hub-to-secondary markets.

Would expanding UK hub capacity (wherever located) bring materially different advantages and disadvantages from expanding non-hub capacity? You may wish to consider economic, social and environmental impacts of different airport operational models.

Do focal airports and non-focal airports bring different kinds of connectivity and, if so, which users benefit the most in each case?

- Both hub and non-hub capacity is needed. Point-to-point is of great importance for local markets but has some limited capacities. A hub adds economic value by facilitating connectivity that could not be supported independently. A hub opens local markets to a larger world of trade. With a point-to-point model only a few dense city pairs can be served. To connect the UK to most overseas cities requires traffic flows to be connected at a hub in order to obtain sufficient flows that make a city pair economic to fly. The hub model is one of the best ways of serving these markets and without it many services would not exist.

- The role and value of a hub airport can be seen at Heathrow, which currently connects the UK to 184 destinations in 80 countries[2].

There are also environmental aspects of hub capacity consider, particularly aircraft noise. The industry is constantly improving its environmental performance through investment in fleet renewal and other technologies. Indeed, today's aircraft are 75% quieter than those manufactured 50 years ago. Specific to Heathrow, the 57 dB LAeq contour has reduced in size by 52% between 1991 and 2009.

The ICAO Balanced Approach, which was unanimously endorsed by ICAO's Assembly in 2001 (Resolution A33-7), provides a transparent process for managing demonstrated noise problems on an airport-by-airport basis. The ICAO balanced approach identifies four elements to address noise at airports:

- Reduction of noise at source;
- Land-use management and planning;
- Noise abatement operational procedures; and
- Operating restrictions

At the latest meeting of the International Civil Aviation Organization (ICAO) Committee on Aviation Environmental Protection (CAEP), a new noise certification standard for aircraft was agreed upon. The new standard will guarantee that future aircraft will be even quieter.

- **To what extent do transfer passengers benefit UK airports and the UK economy?**

- Aviation drives growth and enables business through improved connectivity. Connectivity facilitates getting products to market, moving business people, reducing production costs, increasing productivity, attracting foreign direct investment, and facilitating the exchange of ideas. In the UK, that connectivity constitutes 3.6% of UK GDP and supports 921,000 jobs[3].
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Such a degree of connectivity is made possible and sustained by hub airports, which allow airlines to supplement domestic demand by also serving transfer passengers. Without transfer passengers, UK connectivity would contract, and with it aviation's benefits to the UK economy and society. In addition, transfer passengers, which numbered 26 million in 2012 at Heathrow alone[4], procure UK goods and services during their stay, sustaining UK jobs and businesses.

Lessons learned from the international experience of dual airport hubs:

There are numerous examples globally of attempts to make dual hub structures work which highlight the challenges of doing so:

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[2] www.heathrowairport.com
[3] "Economic Benefits from Air Transport in the UK," Oxford Economics, 2011
[4] www.heathrowairport.com

- The Frankfurt-Munich example referred to in the discussion paper is not one such example, given that Munich is clearly a secondary airport and not an integrated part of a dual hub. Frankfurt handles over 80% of international traffic.

- The Amsterdam-Paris example cited in the discussion paper is the closest EU example. However, these airports serve different markets and are not in competition with one another.

- Recent attempts to use Don Mueang airport as Bangkok's second international airport in parallel to Suvarnabhumi have been opposed by network airlines and alliances on the grounds that connectivity would be lost, damaging the hub function of the existing international airport. For example, one alliance stated that it is not interested in using Don Mueang airport due to the loss of flight connectivity that it would suffer. For the alliance, only 25% of flight connections are made with other alliance members[5]. Moving the alliance as a whole to another airport therefore is unattractive from a commercial point of view. In addition, these airlines have already invested in passenger lounges and other flight connection support facilities at the existing airport to offer a competitive customer experience.

- In Tokyo, the designation of Narita airport for international flights and Haneda airport for domestic services resulted in South Korea's Incheon airport becoming the hub airport for Japan, according to Japanese Transport Minister Mr. Maehara, as passengers had to deal with a minimum 90 minute transfer time between the two airports[6].

- British Airways abandoned attempts in the 1990s to make a dual hub work at LHR and LGW.

What specific characteristics of the UK and its cities and regions should be considered? For example, does the size of the London origin and destination market and the density of route networks support or undermine the case for a dominant hub?

As the Department for Transport stated in its draft policy framework, "demand for aviation in the UK is concentrated in the South East, a densely populated region whose economy comprises multiple, high value sectors including finance, professional services, technology, media and fashion." In 2011, London was responsible for 21% of the UK's economic output.[7] The density of economic

[5] http://www.bangkokpost.com/business/aviation/354618/oneworld-bangkok-dual-airport-policy-risks-its-hub-status
[6] http://www.tokyoweekender.com/2010/07/open-skies-at-haneda/
[7] Office for National Statistics

activity in this part of the country supports the need for a hub that connects this region to markets and people around the world. As discussed earlier, a hub airport can optimize networks by combining the O-D demand with transfer traffic, offering greater connectivity and with that more economic and social benefits for the UK. According to a report by Oxford Economics, a 10% improvement in UK connectivity (relative to GDP) would see an 890 million pound increase in long-run GDP. Indeed, spare capacity currently exists at airports outside of Southeast England and is not being used due to market demand.

Could the UK support more than one focal airport? For example, could an airline or alliance establish a secondary hub outside London and the South East, for instance in Manchester or Birmingham?

There are several points and past experience which lead us to believe that an alliance moving out of Heathrow is not a viable option:

- The experience of Bangkok highlights the difficulty getting an alliance to move out of an existing hub airport to another. Oneworld was reported as rejecting an offer to move to Don Muang Airport because it would damage connectivity and offer facilities not suited to its needs.

- The Discussion Paper argues that "the analysis does, however, suggest that in the right conditions it might be possible for another alliance to relocate its services whilst maintaining approximately 90% or more of its passenger traffic". Losing 7-10% of an alliance's business is not a commercially viable option for carriers or their alliances. In an industry where operating margins are 3% or less, coupled with a high proportion of fixed costs over the medium term, such a loss of traffic is likely to be damaging to carriers and result in less choice and connectivity for passengers.

- IATA agrees with the paper's statement that the concept of "geographical neutrality," is unlikely to be entirely borne out. Passengers will not all be willing to fly from the same airport. Indeed, catchment areas vary between different London airports, with very different surface access to Central London. Moreover, connecting passengers may be influenced by differing connectivity and other quality facets of the airport.

- Passenger yields are partly dependent on the quality of the airline network and the resulting mix of business versus leisure passengers. However, there are clear locational preferences due to the size of the catchment area, surface access and other factors. Currently scheduled passenger services in and out of LHR yield 40% more than LGW, 78% more than LTN and 98% more than

STN[8]. Faced with a potential reduction in yield, an alliance would be reluctant to move.

- Moving away from LHR would release slots to competing alliances, strengthening their market position and weakening the alliance moving. This would be another reason discouraging such a move.

- The other reasons why an alliance would not move from LHR listed on page 52 of the Discussion Paper are equally valid.

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