ABTA
The Travel Association

ABTA response to the Airports Commission

Discussion Paper 04
Airport Operational Models

Introduction

This response is submitted on behalf of the membership of ABTA – The Travel Association. ABTA was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members and over 5,000 retail outlets and offices. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names.

The success of ABTA Members' businesses is directly reliant on the UK's aviation infrastructure; many of ABTA's larger Members are themselves part of groups that own airlines. ABTA Members provide 90% of the package holidays sold in the UK, with Members also selling millions of independent travel arrangements. The provision of quality, efficient and competitively priced passenger air travel is vital to the business interests of Members.

In our previous responses to the Airports Commission, we have highlighted the importance of aviation to the UK economy. The aviation sector offers a wide range of benefits: it facilitates business and leisure travel of British citizens across the world; it brings business and visitors into the UK; it enables the import and export of goods; all of which contribute to a successful and growing UK economy. Aviation is an important part of the UK's strategic transport infrastructure.

The Cebr's study for ABTA on the economic size and the impact of leisure air travel on the UK economy[1] makes an unarguable case for the importance of leisure aviation to the UK economy, as a wealth and job creator without which many air routes essential to the business health of the UK would simply not exist. Even at Heathrow, the UK's main focal airport, around two-thirds of the passengers are travelling for leisure purposes (defined as holidaying, visiting friends and relatives, shopping or other non-business related reasons). The Government must recognise the key role leisure aviation plays in supporting the economy throughout the UK and ensure that support for the sector is built in to any future aviation strategy.

The UK's historic connectivity advantage cannot be taken for granted. To maintain London's leading status in aviation connectivity, the Government must recognise that the necessary

[1] ABTA report by Cebr – The UK's leisure aviation economy (July 2013)

growth in capacity, improvements in surface connectivity, and the quality of the passenger experience are vital conditions for a successful economy. Failure to do so will be damaging to the long-term prospects of British businesses and to the UK's ability to attract new international companies and visitors, and moreover puts at risk retention of existing international investment in Britain.

There is a role for both hub and point to point capacity in the UK and both are essential to maintaining the UK's competitive position.

Do you consider that the analysis supports the case for increasing either hub capacity or non-hub capacity in the UK? Is there any additional evidence that you consider should be taken into account?

ABTA believes that increasing the UK's hub capacity beyond its current constraints, and developing further non-hub capacity where required, is essential to maintaining the UK's competitive position.

The case for the provision of extra capacity, especially in the constrained South-East, has already been well made by business interests including the CBI[2], Institute of Directors[3] and British Chambers of Commerce[4]. Where the UK's connectivity has grown, new trading links have been forged, and vice versa. However, new air links cannot be introduced at the capacity constrained airports without sacrificing existing routes.

Leisure aviation sustains demand, supporting the UK's connectivity in terms of the range and frequency of flights, aspects of the aviation product that are highly valued by business travellers and which could not be sustained by business demand alone.

In order to expand the UK's long-haul connectivity, adequate hub capacity is required. This will attract more visitors and foreign direct investment and will stimulate business and productivity growth, with attendant benefits to employment and economic growth. The economic benefits associated with enhanced hub capacity are much greater than those offered by expanding non-hub capacity alone.

Where capacity is increased in line with demand this will provide incentives to airlines and to airport operators to invest in commercially attractive, but also economically optimal, infrastructure, with direct benefits to the whole UK economy.

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 should be considered?

ABTA believes that the future is likely to lie between Futures 1 and 2.

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[2] CBI – Trading Places (March 2013)
[3] Institute of Directors: Flying into the Future (December 2012)
[4] British Chambers of Commerce – Flying in the face of Jobs and Growth (October 2011)

Per Future 1, there is likely to be further consolidation of airlines and strengthening of alliances particularly in the long-haul sector, supporting the need for increased capacity at focal airports. Other airports will be used by charter airlines and by the no-frills airlines on short and mid haul point to point services and to provide spokes into hubs.

Future 2, with a decline in the importance of the European aviation sector and with the Middle Eastern and possibly Far Eastern airlines increasingly developing a more dominant role, represents a challenge for UK and other European airlines. We believe that there will continue to be a demand for several major European hub airports that provide global connectivity and competition for other hubs worldwide and that London should continue to host a hub airport. It is essential that the Government creates the right conditions for the UK to continue to compete.

The Commission should recognise that there are significant shortcomings to some emerging hubs resulting from their geographic locations which may mean they are unable to offer optimal links to some international destinations for UK passengers. For example, emerging hubs such as Dubai or Istanbul, while well located for many destinations for UK passengers, are much less well placed for other destinations. For example, London is well placed to link to Africa and also to link North America with Europe.

How are the trends discussed in Chapter 2 (e.g. liberalisation, growth of low-cost carriers, consolidation of alliances, and technological changes) likely to shape the future of the aviation sector? Do they strengthen or weaken the case the developing hub versus non-hub capacity?

Both hub and point to point capacity should be expanded where and when needed. ABTA does not believe it is a case of one or the other.

What are the impacts on airlines and passengers of the fact that the wave system at Heathrow operates under capacity constraints?

ABTA welcomes improvements made in recent years in resilience at Heathrow but we remain concerned that without further measures, what should be a minor disruption as a result of adverse weather or other incidents can result in a severe delay. Resilience is important to passengers and allows Heathrow to compete with the continental airports at Paris Charles de Gaulle, Amsterdam Schiphol, Frankfurt and Madrid – all of which have substantially more runways, and therefore the capacity to recover quickly.

Frequencies will increasingly come under pressure leading to less choice of routes and services.

How does increasing size and scale affect the operation of a focal airport? Is there a limit to the viable scale of an airport of this kind?

ABTA believes that larger airports benefit from economies of scale and offer a greater choice of routes to business and leisure passengers alike. European airports have grown significantly in recent years with Frankfurt and Amsterdam Schiphol operating very effectively with four and six runways respectively drawing in routes and business from other European countries to the benefit of their economies. Amsterdam and Frankfurt offer some 250 to 275 routes respectively compared to 165 from Heathrow which has been steadily losing routes in recent years due to capacity restrictions.

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

ABTA believes that both hub and point to point capacity should be expanded where and when needed. It is not a case of one or the other.

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

ABTA agrees that focal and non-focal airports bring different types of connectivity. Users derive greater benefit from a wider choice of destinations and airlines when an airport has adequate capacity to meet demand. Focal airports are able to support routes and frequencies by supplementing passengers from the local catchment area by transfer passengers creating a pool of passengers sufficiently large for airlines to sustain long-haul routes that would otherwise be uneconomic. A combination of focal and non-focal airports, with sufficient capacity, is required to meet UK customer needs.

What would be the competitive effects (both international and domestic) of a major expansion of hub capacity, and what are the associated benefits and risks?

The UK economy would benefit from more jobs and improved connectivity generated by new hub capacity. Heathrow, the UK's only international hub airport, has effectively been at capacity for over a decade. Expansion would allow the serving of customer demand that has either been lost to foreign airports or suppressed by the UK's capacity constraints. New hub capacity must be affordable and located where airlines and passengers will use it.

The very real risk is that if London's hub, and connectivity, fails to keep pace with demand and is unable to accommodate capacity and new routes, then international companies and visitors will look elsewhere in Europe.

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

Transfer passengers help maintain the choice of routes and frequency of services. They supplement the passengers from the local catchment area by creating a pool of passengers sufficiently large for airlines to sustain long-haul routes that would otherwise be uneconomic if the hub were relying purely on local demand. This ensures that the UK becomes a more competitive and attractive location for visitors, businesses and foreign direct investment.

Is there any evidence that the UK (or individual countries and regions within the UK) are disadvantaged by using overseas focal airports?

The use of overseas focal airports will enhance their hub status at the same time as reducing UK connectivity. Instead of hosting a hub the UK as a whole could be reduced to being a spoke for a number of foreign hubs instead. This reduction in capacity means a restriction of choice in destinations and frequencies served directly from the UK. This would impact not only on the UK's global connectivity but on the UK economy and jobs.

The British Chambers of Commerce[5] study shows that air connectivity is an important factor for international companies when choosing where to locate. The use of overseas focal airports in preference to a UK hub is likely to have an impact on attracting visitors, business and inward investment.

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?

See below.

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?

ABTA believes there can be only one international hub airport in the UK with a comprehensive route network serving destinations that other airports cannot, supplementing local demand with domestic and international transfer traffic and cargo, and that hub is currently Heathrow. Heathrow has a unique role as the UK's only international hub airport as emphasised by Heathrow Airport Ltd[6] . The capacity challenge at Heathrow has become increasingly problematic for UK regional airports in establishing links to the UK hub.

The maintenance of a hub airport in the South-East of England will ensure that the UK remains a significant player in the international aviation industry and will ensure future connectivity and global awareness of the UK as a business destination.

If additional capacity is not provided where it is needed, we strongly believe that passengers cannot and should not be cajoled into using airports outside the South-East. Rather, we believe they will begin to use competitor airports in Europe to hub through to reach their preferred destination. The governments of these countries have all demonstrated a much more tangible commitment to future growth and a hub airport, and commercial airlines have seen a market opportunity to direct UK feeder traffic, unable to access Heathrow or Gatwick due to a lack of capacity, to overseas hubs.

[5] British Chambers of Commerce – Flying in the face of Jobs and Growth (October 2011)
[6] Heathrow: One hub or none: The case for a single UK hub airport (November 2012)

In the long-term, we believe that the UK's hub airport needs to be able to grow to reflect market demand and ensure continued international importance.

To what extent is it possible to operate a successful 'constrained' focal airport by focusing on routes where feeder traffic is critical and directing routes which are viable as point-to-point connections to other UK airports?

London's air travellers are not a monolithic group of travellers to whom direction on which airport to use can be given. Neither the airlines nor travel companies who use certain airports should be directed as to which facility to use and how to operate their business models.

Previous attempts at demand management through the traffic distribution rules, whether by the UK Government in London and Prestwick or by the Irish Government at Shannon, have ultimately failed, and market forces have dictated that passengers will seek to travel from the airports most suited to their needs. This has led to lost traffic and significant market distortion.

Foreign airlines consider Heathrow to be the UK's premier airport and would not countenance being required to move to another airport.

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the Airports Commission.

Further information

Luke Pollard, Head of Public Affairs, ABTA – lpollard@abta.co.uk or 020 3117 0588
Susan Parsons, Manager, Trade Relations, ABTA – sparsons@abta.co.uk or 020 3117 0524

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