

Dear Sirs,

I have the following comments in regard to some of the questions raised in your Discussion paper 4.

- 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?

The analysis clearly supports the need to increase hub capacity in the UK. However that does not necessarily imply increasing capacity at Heathrow which is presently the only real hub. There does not appear to be a need to increase non-hub capacity (at least in the short to medium term) as there is plenty of spare capacity at all airports other than Heathrow and Gatwick to support non-hub growth. However if airport(s) not presently acting as a hub are to become hub(s) then work to support such a change in function will be required.

- 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?

The three potential futures are all credible in that they represent feasible outcomes. However it is far more probable that an outcome, which to a greater or lesser extent combines elements of all three will occur. There are so many diverse drivers which will influence the outcome that it is impossible to forecast a specific outcome with any high degree of confidence. Hence the preferred approach should be to have a strategy which is sufficiently flexible to cope with a broad variety of potential futures. Notwithstanding this, the UK Government and industry can take steps to encourage their preferences.

- 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 for developing hub versus non-hub capacity?

The trends discussed in Chapter 2 are very likely to continue, though they are not the only issues which will impact on the future. Some trends such as further consolidation of alliances may encourage growth of hubs, but growth of low cost carriers may well have the opposite effect. It is probable that in the future low cost airlines will attempt to extend their offering to certain long-haul routes, the most likely being between Europe and Asia. If such ventures are successful it could have a dramatic impact upon services to UK airports beyond Heathrow and Gatwick. Improvements in fuel efficiency will certainly continue, but this is not likely in itself to have a significant influence on hub versus non-hub routes. The advent of smaller, fuel efficient long haul aircraft (787, A350) will certainly generate viable new routes, both from hubs and non-hubs.

In respect of the UK the substitution of other forms of transport are likely to only have a modest impact. The advent of HS2 and other rail speed enhancements is likely to eliminate all remaining domestic flights from English and Welsh airports (but not Scottish) to London and reduce demand for many

other domestic routes. Within England outside the South East it can be argued that there are several airports with commercial services which are too small to be viable. Faster ground transport within the UK may well exacerbate this issue. There is some scope for additional rail services from UK to continental Europe, but given the distances involved these will not have a dramatic impact upon air travel demand.

Economic and Social issues will undoubtedly affect overall demand and also relative demand for particular routes. As seen in the past, new drivers appear which can have a significant impact, some such as travel to and from Eastern Europe will have a continuing impact, whereas others such as the recession 2008-13 will probably only temporarily depress demand. Looking forwards it is highly probably that increased demand for flights to BRIC countries and indeed other fast emerging economies will continue whereas growth of flights within Europe will be much less.

As indicated in Chapter 2, airlines and airports are evolving and this will certainly continue. In the UK recent ownership changes at airports is likely to intensify competition. As growth of demand for services beyond Europe grows it is likely that airlines will seek to gain advantage by the introduction of direct services to some regional airports at least in respect to the destinations with highest demand. This in itself may result in airports such as Birmingham and Manchester becoming secondary hubs.

Overall these external issues, especially the cost of flying, will continue to impact on demand, but it is not at all clear as to whether this favours extension of hub operation or growth of non-hub operation or perhaps more likely a mixture of both.

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

The capacity constraints at Heathrow make the airport very vulnerable to any incident (weather, aircraft problem, security issue etc.) very rapidly escalating to major disruption and this is a real concern for all airlines and their passengers vulnerable to that risk. In the case of transfer passengers there is the additional concern of being stranded at the airport. The fact that the three terminals (assume T1, 2 & 3 are effectively a single unit) are remote from one another is an additional problem which renders it unattractive for transfers unless the transfer can be achieved within the one terminal. In practise this means that the hub function is predominantly confined to Terminal 5 and it is not attractive for airlines not using T5 to adopt Heathrow even as a secondary hub.

- 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.

Expanding hub capacity will generate economic benefits to the UK. Currently the only major hub is Heathrow which without additional runway(s) is not able to further increase the number of flights. There is clear evidence that in spite

of Heathrow's substantive position as a hub opportunity is being lost to competitors in continental Europe and elsewhere.

The establishment of secondary hubs outside the south-east merits serious consideration for several reasons –

- To assist in economic development beyond the south east. In particular to make the regions more attractive to international businesses. This includes both inward investment by foreign businesses and facilitating international trade by UK businesses.
- To relieve some pressure on south east airports
- To reduce the need for long distance travel within the UK in order to gain access to international flights.

However providing secondary hubs outside the South East will not remove the need for additional hub capacity in the South East.

At present there is no requirement to expand non-hub capacity as all UK airports other than Heathrow and Gatwick have substantial spare capacity.

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

Transfer passengers are valuable in two respects –

- They add value to the business at the airport both in personal spend at the airport and airport fees levied on their use of the airport.
 - In some cases they allow routes and frequencies to apply which would not be viable if there were no transfer passengers.
- 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 is a strong case for the establishment of focal airports to develop as secondary hubs and there is no reason as to why this could not be achieved. However it will be necessary for government to provide incentives in order to "kick start" such a transformation, especially in regard to long haul services. The economic benefit of airports with extensive routes including long-haul, to the region around such airports has been demonstrated in various studies and is exemplified by the situation in Germany.

Yours Sincerely,