**Airports Commission – Discussion Paper 04 – Airport Operational Models**

**Response from Bristol Airport**

**Introduction**

1. Bristol Airport is the major regional airport for the South West of England and South Wales, serving a catchment area with a population of between seven and eight million people within a two hour drive time. Currently handing 6.0 million passengers per annum, Bristol Airport is the ninth largest airport in the United Kingdom and the fifth largest outside the South East of England. Flights are available from the Airport to over 100 destinations across 30 countries, including 82 destinations served by scheduled services.

2. The CAA Passenger Survey indicates that 6.3m passengers travelling to or from the South West and Wales used an airport in the South East of England during 2012. Our role is to ensure that we meet as much of the demand for air travel within our catchment area as possible and to reduce the reliance of travellers to and from the South West of England and South Wales on the use of the London airports for meeting their air travel needs. As one of the largest bases for low cost airlines outside the London airport system, with an expanding full service network and good prospects for a future network of long haul services, Bristol Airport has significant potential to 'claw back' the current leakage of passengers from our catchment area. Bristol Airport also has significant potential to increase international visitors given the wealth of iconic tourist attractions and beautiful countryside in the South West and Wales. Reduction of leakage and greater inbound tourism direct into the regions will help mitigate the congestion at the London Airports and allow those airports to better deliver their full potential in meeting demand from the South East of England.

**Overview**

3. Whilst Discussion Paper 04 provides a helpful analysis of the transfer market we would suggest that the Commission needs to undertake further research before a definitive conclusion can be reached on the need, scale and benefits of providing additional hub capacity.

4. Historic evidence and current airline strategies suggests that the UK is unlikely to be able to support a system of multiple airport hubs. Growth in passenger demand can be expected to be dominated by point to point traffic with low cost airlines continuing to develop at airports outside Heathrow. There is also a growing network of regional airlines using smaller aircraft serving short haul destinations from regional airports. However, the long term future picture of the aviation market is uncertain and therefore proposals for the development of additional runway capacity carry considerable risk.

5. There is a body of evidence to support the Commission's conclusion that a focal airport draws traffic away from regional airports to the detriment of connectivity for those who live further away. The effect on regional connectivity is particularly marked in the South West of England because of the proximity of Heathrow and the competitive distortions of the airline hub model. The majority of passenger leakage from the South West to

Heathrow is accounted for by 'thick' routes including a significant proportion of short haul traffic. These passengers could be served more efficiently from Bristol airport but the strength of Heathrow is allowing airlines to draw traffic away from the regions.

6. Regional airports provide an efficient and passenger friendly experience. Links to overseas focal airports are popular and provide important local connections to long haul services.

**Responses to questions:**

1. *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 Discussion Paper provides a comprehensive and useful analysis of the aviation market. The Department for Transport passenger forecasts indicate that many UK airports will be capacity constrained between now and 2050, including the UK's hub airport, Heathrow. The forecasts, therefore, provide clear evidence to support the case for increasing airport capacity, but their exclusion of international to international transfer passengers means that they cannot be relied on to assess how much of this capacity is needed for hub operations.

   We note that the UK domestic to international transfer passenger market through Heathrow has declined significantly and now amounts to just 2.4 million passengers per annum (mppa). Statements from British Airways suggest that this market is unlikely to increase in the future and may decline with the development of a UK high speed rail network. The UK to international transfer traffic through overseas hubs may have risen, but at 4.1 mppa it still remains relatively small, amounting to less than 5% of non-London UK passengers. Discussion Paper 01 highlighted the difficulty of accurately modelling the future demand for UK to international transfer traffic via overseas hubs.

   Whilst Discussion Paper 04 provides a helpful analysis of the transfer market we would suggest that the Commission needs to undertake further research before a definitive conclusion can be reached on the need, scale and benefits of providing additional hub capacity.

2. *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?*

   Historic evidence and current airline strategies suggest that the UK is unlikely to be able to support a system of multiple airport hubs and we therefore believe that Future 3 is an unlikely picture for the future development of the aviation sector.

   The Commission has highlighted the decline in traffic at regional airports in recent years. This decline has been greatest at the smaller regional airports, such as Exeter, Cardiff, Bournemouth, Newquay, Blackpool, Norwich and Durham Tees Valley. The recent purchase of Cardiff Airport by the Welsh Assembly Government suggests that airports handling around 1mppa or less may not be financially viable and further airport closures might occur in the future. The larger regional airports have fared much better and can be expected to continue to remain attractive to a variety of airlines. The strength of the catchment areas, the simplicity of operations and the availability of capacity suit many airline business models. This is good for passengers and creates efficiencies for airlines which contributes to profitability.

In the short to medium term, it seems unlikely that airports outside London will be able to develop a significant market for hub traffic, given the attraction of Heathrow to airline alliances. However the market for long haul services from regional airports is being opened up by the introduction of new mid-sized aircraft such as the Boeing 787 and Airbus 350. There is potential for non-aligned Middle Eastern airlines to grow their presence in the regional market and the strength of the transatlantic market can be expected to deliver new routes from regional airport by US airlines.

As far as Bristol Airport is concerned, we envisage the aviation sector developing in line with a combination of Futures 1 and 2. Growth in passenger demand can be expected to be dominated by point to point traffic with low cost airlines continuing to develop at airports outside Heathrow. Focal airports will be bypassed by some airlines seeking to connect regional airports to European, Gulf, Turkish and possibly Chinese hubs. However, predicting the long term future of aviation is extremely difficult. Projects to deliver future runway capacity will carry significant risks given that they are unlikely to be delivered before 2025.

3. *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?*

We have commented on the evidence for developing hub versus non-hub capacity in our response to question 2.

The most significant trend in the current aviation market is the growth of point to point traffic through the development of low cost carriers. This has allowed regional airports to serve a network of destinations that would not be viable or attractive for full service carriers. With both Ryanair and easyJet making commitments to purchase new aircraft, further growth of low cost carriers in Europe can be expected in the future.

The consolidation of BMI into IAG has released bmi regional to operate effectively as a new airline serving the regional market. This has seen the launch of six new European and UK domestic routes from Bristol over the past nine months. Compared with 2008 we have seen a 60% increase in the number of passengers using the smaller, regional, ‘niche’ airlines serving UK and European destinations with aircraft with under 100 seats. This growth trend looks set to continue and has the potential to deliver much improved regional connectivity.

The 2012 CAA Passenger Survey indicates that just under 1% of passengers using Bristol Airport were connecting on to another flight at Bristol Airport, a figure that is little changed from the previous 2008 survey. It is interesting to note that this proportion is not that much smaller than the proportion of transfer passengers using Manchester

Airport suggesting that regional airports are unlikely to be able to support transfer traffic in significant numbers in the current market.

Around 50% of the passengers on full service international routes from Bristol make connections through European hubs although this remains a relatively small proportion of overall traffic at around 3% of total passengers. This market has seen modest growth since 2008.

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

Bristol Airport does not have a view on this. However we would point out that, in contrast with passengers from many parts of the rest of the UK, passengers from the South West region and South Wales generally access Heathrow by surface modes of transport. In this respect the efficiency of the wave system has no effect on their journey.

5. *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?*

Bristol Airport does not have a view on this.

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

We concur with the view expressed at paragraph 3.22 in the discussion document that a focal airport draws traffic away from regional airports to the detriment of connectivity for those who live further away. Evidence for this can be found in the 2012 CAA Passenger Survey results which indicate that Heathrow's share of the South West region's passenger market has risen from 24% in 2008 to 28% in 2012. In the same period the share of the market accounted for by Gatwick, Stansted and Luton airports has fallen from 20% to 18%. Bristol's market share has fallen slightly from 43% to 42%.

Analysis of the most popular destinations at Heathrow used by passengers from the South West region shows that 37% of the passengers from the South West using Heathrow are travelling to short haul destinations. Germany, Spain, Italy, France and Switzerland account for around 60% of the leakage in the short haul sector.

75% of the long haul 'passenger leakage' is accounted for by five countries – the United States of America, United Arab Emirates, Canada, Hong Kong and Singapore. These are likely to be the highest yielding and most profitable routes from Heathrow with high levels of business use and transfer traffic. We discussed the competitive advantages of Heathrow and the impacts this has on route development at regional airports in our recommendations for a balanced aviation policy in our document, Giving Wings to airports across the UK. The majority of passengers from the South West using Heathrow are travelling on the 'thick' routes which would be more logically served from a regional airport, such as Bristol.

A further consideration in this equation is the fare structure adopted by airlines operating from Heathrow. Anecdotal evidence that fares on British Airways flights from Heathrow are sometimes cheaper than those on low cost airlines is supported by research undertaken by the BBC for their recent programme on low cost airlines[1]. For one of the destinations monitored – Barcelona – British Airways, was consistently cheaper than easyJet and only slightly more expensive that Ryanair even though the Ryanair flight was to the secondary airport of Girona. It would seem that full service airlines at Heathrow are operating aspects of their short haul network as a 'loss leader' with fares subsidised by the long haul routes. Aircraft on these routes can be expected to be operating with lower average load factors than the typical average of 90% achieved by the low cost carriers, making inefficient use of airport capacity. Furthermore the use of Heathrow for short haul to short haul transfers is environmentally and operationally inefficient. It is questionable whether this is justified by the level of transfer traffic being carried.

The strength of the more profitable routes and frequency of services from Heathrow is therefore allowing airlines to draw traffic away from regional airports. The effect on regional connectivity, economy and social well-being is likely to be particularly marked in the South West region. As an elongated peninsula region, the impact of connectivity on the regional economy increases with distance from London. A redistribution of traffic to the regions would address this but start-up routes by airlines at Bristol are competing in a market that is distorted by Heathrow's dominance.

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

The best form of connectivity is that provided from the local airport. Focal airports cannot deliver efficient connectivity for regions outside the South East, particularly if access to the focal airport is by surface modes of transport. Non-focal airports provide a simple and efficient passenger experience. They operate on a smaller scale which is less intimidating to passengers than the larger focal airports. We are frequently told by local residents that they will only undertake their journey if they can fly from Bristol.

Regional airports also facilitate trips by overseas visitors to areas outside London, benefitting the wider tourism industry and introducing high value tourists to regional tourist attractions. Bristol Airport's close proximity to high quality coasts and countryside and a number of World Heritage Sites, including the city of Bath, provides an opportunity to develop an international tourism industry based on direct access for visitors through the regional airport.

8. *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?*

Please refer to the response to question 6.

Whilst the delivery of airport infrastructure is generally funded by private investment, there is evidence that the development of hub capacity is dependent on some form of

[1] http://www.bbc.co.uk/news/business-22882559 retrieved on 28 June 2013

public funding. Newspaper reports[2] suggest that a new hub for London would require public funding of £25bn and even Heathrow might need public funding for its development plans. In addition to this there is the prospect of a further £500m of public funding for a western link to Heathrow from the Great Western Mainline. A major expansion of hub capacity will require associated investment in surface access which is unlikely to be deliverable without significant public funding.

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

Whilst transfer passengers facilitate the operation of routes from Heathrow that might not be otherwise viable, quantifying the economic benefit of this to the UK is difficult. Data from the 2012 CAA Passenger Survey suggests that the number of destinations and UK passengers benefitting from this are small. A more likely effect is that the hub model is fuelling excess capacity on ‘thick’ long haul routes, particularly transatlantic routes, restricting the ability of regional airports to properly serve the long haul market within their catchment areas. Any benefits from transfer passengers have to be balanced against the impacts on regional connectivity.

10. *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 foreign airports as hubs from Bristol is popular. Anecdotal evidence indicates that the connections work well and passengers are pleased with the service. The trend is for capacity on the feeder routes to increase and the high level of use with full service international carriers suggests that fares are competitive. The European hubs also provide connections to destinations that are not well served from Heathrow (e.g. former Belgian colonies in Africa through Brussels). For other passengers the ability to take a flight from their local airport with an overseas transfer is favoured over the inconvenience of a surface journey to Heathrow.

The market is weighted in favour of UK originating traffic and therefore airlines, such as KLM, base their crews at UK airports, and in some cases employ UK staff. The services provide regional connectivity to a wide range of long haul destinations with associated direct and indirect economic benefit. We do not believe there is any evidence that the model disadvantages the UK and in any case there seems little Government can do to influence this pattern of travel within a liberalised EU aviation market.

11. *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?*

The geographical economic imbalance between the South East and the rest of the country needs to be considered. Eurostat statistics indicates that when measured by per capita incomes, the gap between the best-performing and the worst-performing regions

[2] Heathrow may seek public funding for expansion plans – Guardian 18 June 2013, http://www.guardian.co.uk/business/2013/jun/18/heathrow-public-funding-expansion

of the UK is the widest of any of the European Union's 27 member states[3]. Eurostat broke the UK into 37 sub-regions, 27 of which have GDP per capita below the EU average. A dominant hub frustrates the delivery of the improved regional connectivity needed to rebalance the economy.

*12. 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?*

Airline strategies in the UK do not favour a multi-hub approach and this seems unlikely to change in the future. Historic attempts to create a second hub such as at Gatwick and Manchester in the last two decades have failed. The low levels of transfer traffic outside the South East suggest it is unlikely that an airport outside London can operate successfully as a hub in the current market.

Whilst Germany provides a good example of a dispersed airport system, this model has developed in unique circumstances, with the post war partition of the country, its federal system and dispersed economic geography. However the multiple hub aspect of this system would have other consequences for the UK. The distribution of population in the UK determines that any airport operating as a hub here needs to be located in England where the major urban conurbations are located in much closer proximity to each other than in Germany. A major expansion of hub capacity through the expansion of Heathrow, and/or the development of new hubs either in the South East or elsewhere is likely to exacerbate the competitive distortion referred to in the answers to previous questions. Regional connectivity is best served by the development of point to point services from regional airports. It is interesting to note that KLM serve 18 airports in the UK outside London and only nine in Germany outside Frankfurt, suggesting that the UK has a more dispersed airport system.

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

Previous attempts to distribute traffic according to rules have failed. However the current high levels of air passenger duty provide an opportunity to incentivise point to point traffic by offering differential rates from regional airports. The recent research by HMRC provides an indication of the effect this might have on the distribution of traffic.

[3] The Observer, 26 May 2013: UK's problem isn't the dominance of finance – it's the dominance of London; http://www.guardian.co.uk/business/2013/may/26/uk-problem-dominance-finance-london .