Aberdeen Airport Consultative Committee

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DISCUSSION PAPER ON AIRPORT OPERATIONAL MODELS

Background information

Aberdeen Airport Consultative Committee is established under UK civil aviation legislation. It is independent of the airport's ownership and management, although the Managing Director attends and advises meetings as appropriate. The Committee has 20 members, drawn from the local authorities most closely affected by its operations, local community councils, professional and trade organisations, such as the local Chamber of Commerce and ABTA, and organisations connected with aviation, including NATS and the local Airport Operators' Committee, and chaired by an appointment that is free from any specific stakeholder interest. The airport is predominantly a business airport, with a throughput of more than 3million passengers a year. In addition to scheduled services to London and most of the UK's provincial airports, and international scheduled services to Europe's main hubs, Aberdeen International Airport is also the world's busiest civilian helicopter airport, servicing the off-shore energy sector. Most fixed wing flying from Aberdeen International is on full service airlines, including national carriers from the UK, the Netherlands, France, Germany and Scandinavia.

This paper forms a submission on behalf of the Consultative Committee in response to the Commission's discussion paper number 4, on airport operational models. We have restricted our submission to those questions that we feel are most pertinent to the users and stakeholders of Aberdeen International Airport that are within our constitutional and technical competence to answer.

By way of preface, we feel we must congratulate the Commission for the extent of the detailed analysis set out in discussion paper number 4, not just in relation to UK airports but also the depth of comparison with focal airports elsewhere in Europe and in the Middle East.

Precepts on which our response is prepared

In designing a solution for the whole of the UK, the Committee suggests that the following fundamental facts and precepts must be taken into account:

1. the UK is an island, and therefore most inbound and outward travel, including much of our high added value freight, will remain reliant on air connectivity;
2. the UK is part of Europe. Connectivity for much of the population of the UK to Europe (ie away from the Eurostar and ferry services) is reliant on air;
3. the UK has strong historical and cultural links with a number of parts of the world, where distance dictates that connectivity can only be by air;
4. London is an important focal point for tourism, business, and government and is a large centre of population, and therefore requires ready access through one or more top quality focal airports;
5. on the other hand, a high proportion of the UK population does not live in the south east, so their needs for connectivity to the world should in no way be overlooked by the Commission;
6. there are important areas of economic activity and tourist interest in the UK which are distant from London. Many are beyond the 3 – 4 hour range where it is generally accepted that surface transport has the edge over air. Therefore our inbound tourist sector requires connectivity from our hub airport(s) to all parts of the UK in order to attract high value tourists from traditional and emerging markets beyond London and the south east;
7. the current transport infrastructure is not sufficiently adequate to connect these areas to London by surface alternatives. Even after HS2 is operational, the further regions of the UK will be beyond its reach and will still require air routes for internal point to point travel and international connectivity;
8. the interconnection between different forms of transport is never likely to compare favourably with the potential of transferring directly between flights at a hub airport. For example, how many travellers would wish to take a rail journey of 4 hours plus to, say, Kings Cross, to travel by tube and Heathrow Express to Heathrow for a long haul flight?

We therefore believe it is obvious that the UK requires a large, well-designed hub airport with facilities for future expansion situated near the main focus of population, business, inward tourism and government, such as Heathrow has provided since the 1950s. We also repeat our submission from discussion paper 2 that the rest of the UK deserves to be linked by easy connection, whether by road, rail or air, to the UK's main hub(s). Furthermore, the need for connectivity from the UK regions through the UK's hub(s) is now, as well as several decades in the future.

We appreciate that the timetable for reporting by the Commission has been prescribed by the present government: we believe that failure by successive governments urgently to pursue an appropriate solution to the problem has placed, and will continue to place, the UK in the second division of choice when it comes to connectivity and interlining within Europe.

Answers to specific questions

Question: *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?*

Aberdeen International Airport serves one of the more peripheral regions of the UK, but contributes disproportionately to the UK exchequer through the off-shore energy industry and distilling, to name but two sectors. As noted in the opening paragraph of this submission, the airport currently services about 3 million passengers a year, nearly 60% of whom are travelling on business. The area served by the airport has a resident population of about 500,000, which is insufficient to sustain regular scheduled services beyond UK domestic routes and feeder services into the main European hubs. It is 120 miles from its nearest major airport (Edinburgh) and therefore provides a critical service to business and leisure travellers. More than 90% of air travellers from the catchment area of Aberdeen International choose to fly from their local airport, rather than take a surface journey to Edinburgh, Glasgow or an English regional airport. Since much of the business traffic generated relates to the off-shore energy industry, high value food and drink production, life sciences, the financial sector and higher education, the demand is for regular and time critical access to world centres of oil and gas production and other major world markets. The area also offers high quality tourism and leisure facilities, so we are also concerned that in-bound air connectivity is available.

Access to the hub system is, we propose, critical to the continued success of business and, to a large extent, the longer haul leisure market. Our reliance is on Heathrow, Amsterdam Schiphol, Paris Charles de Gaulle, Frankfurt, and to a lesser extent Copenhagen and Dublin. Aberdeen International has frequent services to each of these airports. We think it is unlikely that the limited local population of Aberdeen City and Shire will ever be able to emulate Edinburgh or Glasgow, or English regional airports such as Newcastle, in generating sufficient traffic to justify a route to a hub in the Middle East/Turkey. Heathrow historically generates more traffic from Aberdeen than the three major European hubs taken together and, subject to the maintenance of feeder services to Heathrow by BA and Virgin, we suspect that this situation will prevail.

As we noted in our submission to discussion paper number 2, business and leisure travellers from the north east of Scotland rely very substantially on aviation to ease their journeys. Rail and road much beyond the border between Scotland and England (ie the three/four hour journey limit, paragraph 2.16 of your paper) is just not a viable alternative to air. Domestic services are offered at least once a day, and in many cases, four, five or more times a day, to some 20 UK airports, from Shetland in the north to Southampton in the south. Heathrow is by far the busiest route, with a capacity of approaching 2000 seats a day each way, used both for point to point travel and for interlining. A continuing concern, which we share with other peripheral regions, is the recent trend for the few remaining UK flag carriers to use scarce slots at Heathrow for long haul wide-bodied services to the detriment of UK regional services. The European hubs to which Aberdeen is connected are predominantly used for interlining, but they should not be seen as a substitute to a UK hub for those travellers who wish to travel with a UK registered carrier.

From our perspective, there is clearly a case for increasing hub capacity in the UK, or for managing it in such a way that UK regional airports have sustained access to a sufficient number of slots at UK hubs. Since most travellers from Aberdeen who use a UK airport for interlining transfer BA to BA/oneworld or, from April this year, from Virgin to Virgin/Delta, then for the time being the only UK hub that is available to them is Heathrow. Any reduction in the number of slots for domestic services at Heathrow could potentially deny high value business travellers from the peripheral regions of the UK access to services that they currently demand.

In our response to discussion paper number 2, we stated that we did not wish to express a preference for expansion of Heathrow or the building of a new focal airport in the south east of England. We said that we simply need re-assurance on the continuity of service to the hub airport that BA and Virgin use, now and in the future. We did not foresee any substantial reduction in demand for such interlining: indeed, given the buoyancy of the off-shore energy industry and other sectors for which the north/north east of Scotland is a base, there is every sign that demand will increase.

Since making our submission to discussion paper 2, we have reconsidered our position on whether the UK's main hub should remain as Heathrow, or be replaced at some indeterminate date in the future by a new airport, such as 'Boris Island'. Taking what we see as a purely pragmatic view on the political and economic scene in the UK now and well into the future, in terms of capital investment in new infrastructural projects, we are not persuaded that either the will or the money will be available to construct a new airport and all the associated infrastructural links, nor indeed that the labour needed to run a major international airport will be readily available close by the Thames estuary, or any other location away from the present major London airports. The only solution, however hard it might be on certain parts of the population of London, seems to us to be an urgent expansion of Heathrow, by a minimum of one or two runways and associated additional terminal facilities, to maintain the position London has held for six decades, as the cross roads of the world. We do not believe the nation can hang around for too many years before such action is taken, or the economy of UK plc will further stagnate.

We suspect that non-hub capacity is generally sufficient across the UK, or is already being improved by expansion plans in place, for example at Birmingham and Luton, or by the use of new capacity as at Southend.

Question: *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?*

To the extent that we feel technically competent to judge, our responses are:

Future 1: We support your analysis in relation to further consolidation of airlines/strengthening of alliances resulting in the enhancement of the dominant role of major focal airports. However, we suspect that the advent of the B787 and the A350 might offer some larger regional airports the opportunity to launch longer haul point to point services that currently require interlining, although based on the current apparent lack of interest of the major UK flag carriers in extending their intercontinental services much beyond Heathrow, such services are likely to be provided by non-UK based airlines, as currently witnessed by the interests of Emirates and Turkish in services from UK provincial airports. In addition, we suspect that the current non-hub airports will continue as providers of spokes into hubs and where a market can be identified, through increasing use by low cost carriers.

Future 2: Clearly, the ability of aircraft such as the A380 to fly from New York to Dubai non-stop and the A340-500 from Singapore to New York obviates the need for a change of plane at a European hub for through passengers between such centres, as was until recently the case. There is also evidence that from UK airports served by Emirates and Turkish airlines, for example, travellers have an increased choice of routes involving a change of plane. But there will, we believe, continue to be a demand for connectivity through Heathrow and European hubs from smaller regional airports. We are not in a position to judge whether the thesis on which Futures 2 is based will be borne out, or whether the general global increase in demand for air services will simply spread the load. We suspect the latter.

Future 3: We are not certain about this 'future'. There is no evidence that the full-service airlines are proposing to diversify their services away from their established hubs (ie Heathrow in UK terms). All the evidence of the past 10 years or so is that they are more likely to consolidate services at one, or at most two, bases. Equally there is no evidence that low cost carriers operating UK domestic services have any plans to seek to break into Heathrow. This 'future' is likely only to succeed at other UK airports through the 'self-connect model' or by low cost carriers forming alliances or code shares with full service. The only real evidence of the latter in the recent past has been Flybe code-sharing with BA through Gatwick: an arrangement which will cease in March 2014 when Flybe abandon their remaining Gatwick services.

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

The benefits of the wave system are clear at European airports such as Amsterdam Schiphol, where KLM as the dominant airline provides sufficient in-bound services from the 16 UK airports that it serves, to minimise connection times for onward connections. Where BA, as the dominant airline at Heathrow, operates multiple daily services from its UK domestic stations, as it does from Aberdeen, Edinburgh and

Glasgow, for example, then a similar benefit to the wave system appears to exist. It is when a contingency, such as snow, poor visibility or an aircraft problem, occurs that the system falls down at Heathrow, whereas Amsterdam Schiphol, Paris Charles de Gaulle ad Frankfurt all appear to have greater (but by no means perfect) resilience, with four or five runways available to them. By comparison, only Heathrow and Manchester in the UK have two runways; every other UK major airport relies on one.

Question: *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.*

As noted above, we are not convinced that most of the UK's non-hub airports are particularly short of capacity. Their success appears ultimately to depend on such factors as routes available, fares and related pricing, and accessibility from the traveller's home or business. Unless airlines/alliances choose to diversify their operations beyond Heathrow and, to a lesser extent, Gatwick, the pressure will, we believe, continue to be on the expansion of hub capacity.

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

The smoothest connectivity is achieved where a traveller is able to fly on two or more flights on one booking, with through ticketing and through personal and baggage check-in (subject to any customs requirements along the way). This presupposes availability of a series of flights on one airline, or with an alliance or code-share arrangement. The only UK airlines that offer this facility operate the majority of their services from Heathrow and a smaller number from Gatwick, both focal airports. Their baggage handling, immigration, internal security systems and passenger facilities are appropriately geared up.

Non-focal airports, such as Luton or Stansted, rely substantially on point-to-point services, which depend on the self-connect model. 'Through passengers' are required to collect and re-check baggage, potentially recheck their seats, pass through security at each stage of their journey, and may be subject to multiple charges for such 'add-ons' as seat selection and baggage charges. There is no guarantee of onward travel if the first flight in a sequence is delayed and the separately-booked second flight is missed. The non-focal model requires much greater self-reliance and a willingness to face upsets which should not prevail with through ticketing.

Business travellers and leisure travellers willing to book with full-service airlines are more likely to benefit from connectivity through focal airports, whether in the UK or elsewhere. Those who are prepared to accept some level of risk to their plans, perhaps in return for a lower cost flight or ostensibly more convenient schedule, might benefit financially from connectivity through non-focal airports.

Question: *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?*

We shall restrict our response to the effects on domestic services. A major expansion of hub capacity should offer greater certainty and sustainability of UK domestic services into an airport that does not suffer the capacity constraints of Heathrow or Gatwick, to the benefit of both point-to-point and interlining travellers and to the economies of the UK regions. Such services would not face the degree of competition that currently prevails from the economic benefit to airlines of operating long haul wide-bodied aircraft on 'thick routes', compared with the use of scarce slots for frequent UK domestic services using smaller aircraft.

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

We are not aware of any particular disadvantage. Why else would KLM in particular, and Air France and Lufthansa, be so keen to operate from as many as 16 UK regional airports into their European hubs? In some respects, where a single terminal airport exists, as at Schiphol, there are also potential time saving advantages. However, we do not believe reliance on European (or Middle East) hubs is a reason for not improving UK focal airport capacity. There are those who choose to fly with the UK major airlines, or those for whom BA or Virgin offer the only service out of Europe to a chosen destination. They should still have the opportunity to choose, in the same way that residents and businesses closer to Heathrow and Gatwick have, through the provision of direct connectivity.

Question: *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?*

We are aware that Birmingham International and Manchester airports are seeking to establish focal airport status. We see no practical or philosophical reason why they should not act as transfer airports between UK domestic flights and long haul services (including from Aberdeen, which has multiple daily services to both). However, neither will be able to offer the smoothness of transfer that Heathrow and the main European hubs offer, without co-operation between UK domestic airlines and long haul carriers in terms of code sharing or membership of the same alliance, to guarantee through checking of seats and baggage and assurance of transfer to a later service in the event of delay on an earlier leg of the journey. As noted above, Flybe has been the only UK low cost carrier to show any interest in forming such code-share arrangements in the past, predominantly through Gatwick, from which they are withdrawing at the end of March 2014.

Until a few years ago, when BA ceased all its UK provincial services other than to Heathrow and Gatwick, and services such as Birmingham and Manchester to New York, hub status might have been possible. With the fragility of UK domestic carriers, as witnessed for example by the recent sell off by Flybe of its slots at Gatwick from March 2014, business passengers would be reluctant to commit themselves to services which might be cancelled at short notice (it has not been unknown for an airline to abandon a UK provincial route with as little as three weeks' notice). We do not believe that the majority of business travellers would willingly choose the 'self-connect model' referred to in paragraph 2.39 of the discussion paper, because of the lack of certainty in making connections, the hassle of collecting and rechecking baggage and the lack of simplicity offered by through ticketing.

Question: *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?*

This question seems to ignore the current single market under which airlines are able to use available slots for whatever services they choose. The Department for Transport has been quite clear that the UK government has no powers to direct, for example, the preservation of slots at Heathrow or Gatwick for services from UK regional airports, other than under the EC Public Service Obligation, and this was confirmed as recently as 24 June 2013 by Simon Burns MP in an answer to a written question from Nicholas Brown MP. The corollary is that the UK government would be in breach of EC regulations if it tried to redirect routes from Heathrow or Gatwick.

It is therefore difficult to imagine the redirection of routes that do not rely on feeder traffic from a successful 'constrained' focal airport to another UK airport. Using BA as an example, what are the chances of them re-establishing one or more new UK long haul bases for some services to New York or on other 'thick routes', as soon as they have met demand from feeder services? They naturally will wish to maintain the smallest number of bases for economy of operation, and be where they believe the majority of passengers wish to fly to/from.

The advent of the B787 and A350 might encourage some airlines to set up a limited number of long haul services from other airports, but these are more likely, as we have already noted, to be non-UK airlines breaking in to the UK market than UK flag carriers. Otherwise, all the evidence of the last 10 or so years has been a clamour for slots at Heathrow even from US and other airlines that previously operated successful trans-Atlantic services from Gatwick. Under what arrangement could they be 'forced' to repatriate to Gatwick, or to transfer to Manchester or some other UK base?

We trust that our submission will assist the Commission in its deliberations.

Dr Peter Smart
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