# AIRPORTS COMMISSION

# DISCUSSION PAPER 04:
# AIRPORT OPERATIONAL MODELS

## RESPONSE BY UTTLESFORD DISTRICT COUNCIL

## JULY 2013

UTTLESFORD DISTRICT COUNCIL

It's Our Community

## INTRODUCTION

1. This is Uttlesford District Council's response to the Aviation Commission's Discussion Paper 04: Airport Operational Models. The District Council is the local planning authority for Stansted Airport. The Commission will be aware that the airport has planning permission to expand to 35 million passengers per annum (mppa). Current throughput is about 17.5mppa, having declined from just under 24mppa in 2008. Recently, throughput has started to increase again, albeit slowly. Stansted has been sold to the Manchester Airports Group (M.A.G), which has given an initial indication of wanting to grow the airport to 32mppa by 2028. Stansted Airport therefore has sufficient unused capacity through to 2030 and beyond, depending upon the rate of growth that occurs.

2. Expansion of Stansted Airport has been a key issue of local concern for many years. Most recently, a suite of planning applications for the construction of a second runway and associated infrastructure (known as Generation 2) was submitted in 2008 to enable 68mppa to be reached by 2030. These applications were withdrawn in 2010 following the Coalition Government indicating that it did not support the then current aviation policy set out in the 2003 Air Transport White Paper.

3. This response is structured around the questions set out in Paragraph 5.3 of the discussion paper.

## THE COUNCIL'S RESPONSE

*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?*

4. Looking at the DfT's 2013 constrained, central aviation forecasts, it is clear that the London airport system will be at capacity around 2030 depending upon the level of passenger growth that occurs. However, Table 5.5 of the forecasts indicates that, taking into account spare capacity in the regions, there is sufficient current capacity in the UK airport system to accommodate central, constrained forecast growth until about 2040. The DfT has consistently revised its forecasts downwards, the central constrained UK terminal passengers forecast for 2040 having dropped from 405mppa in the 2011 forecasts to 370mppa in 2013, a reduction of 8.6%.

5. The unconstrained forecasts indicate that the London airport system would be at capacity earlier than 2030, with Heathrow handling just under 110mppa in 2030 and 170mppa in 2050. 110mppa and 170mppa assume major expansion at Heathrow, but it is not

immediately clear how 170mppa would be achieved. The Commission will be aware of the work undertaken by the Policy Exchange and Centre Forum on a "displaced 4 runway" solution for Heathrow, but this indicates a maximum throughput of 140mppa. The extra 30mppa would be the equivalent of one further large terminal to find.

6. Based on the DfT's 2013 constrained forecasts, the Council is not convinced that there is a case at the moment for expanding hub and / or non-hub capacity in the UK. The Council does not consider that the unconstrained forecasts are likely to be realistic.

*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?*

7. All three are credible and it is considered that they may not be mutually exclusive. What may result could well be a combination of two or all three. Much will depend upon the level of passenger demand that materialises over the next two or three decades. Most growth is expected to occur in travel to and from the emerging economies, including the BRIC countries.

<u>Future 1</u>

8. The new Terminal 2 at Heathrow is due to open in June of next year, and will be used by 23 Star Alliance airlines handling about 20mppa. Oneworld (which includes British Airways from Terminal 5) already hubs at Heathrow, and the Star Alliance could operate a mini-hub from Terminal 2 using the improved interlining opportunities that the new terminal building provides.

9. The discussion paper suggests that it might be possible for one of the alliances to switch its operation to another London airport because less than 10% of their traffic connects from routes served only by airlines from outside the alliance in question. However, the paper then gives six strong reasons why no alliance has so far moved from Heathrow. The Council thinks that it is unlikely that an alliance would be persuaded to relocate from Heathrow.

10. If Heathrow were to close, any of the displaced alliances may well choose to relocate to another European hub rather than use a replacement UK hub. For instance, Oneworld could intensity its hub at Madrid. When he gave evidence to the Parliament Transport Committee on 4th December 2012 Willie Walsh, (Chief Executive Officer, British Airways and International Airlines Group) cast doubt on the ability of the UK Government to make tough decisions on expanding UK hub capacity. As a result, British Airways is undertaking business planning on the basis that there will be no change to the capacity of the airports in London that it operates to.

Future 2

11. The key to this scenario is the introduction of the next generation of more fuel-efficient, lower capacity aircraft with longer ranges. In its recently published Noise Road-Map, Sustainable Aviation (SA) comments on airline fleet transition. SA anticipates that the phasing out of the current fleet will begin to gain momentum around 2025 and will be completed by 2045. In the meantime, the continuing introduction of what SA calls "imminent" aircraft will mean that by about 2030 the current fleet will account for less than 50% of all ATMs. Included in the "imminent" aircraft is the Boeing 787 Dreamliner (200 – 250 passengers and 8,500nm range) and its main rival the Airbus A350 XWB, which is due to enter service in 2014 with Qatar Airways being the launch customer. The A350 recently undertook its maiden flight. The significance of these aircraft is that they have the range to fly long-haul point-to-point services, bypassing traditional hubs. As they do not carry as many passengers as, say, the Boeing 747 they need not be so reliant on transfer passengers if there is strong local demand from point-to-point airports.

12. With the London airport system getting highly congested towards 2030, it seems highly likely to the Council that foreign airlines will use the new lower capacity and longer range aircraft to enhance existing regional markets and create new ones to serve demand. New aircraft technology is bringing opportunities that have not existed before. For instance, Air India has just announced that it will be flying from Birmingham Airport direct to New Delhi from 1st August 2013 four times a week using the Boeing 787. One reason given for introducing this service is the Midlands Indian community want direct connectivity to India to enhance trade and to reach family members easily.

Future 3

13. This is also possible. The main reason is the recent divestiture of Gatwick and Stansted Airports by the BAA Group, which is likely to increase competition for passengers within the London area. The CAA is currently consulting on the new economic regulatory framework for Stansted after April 2014. The current indication is that a more relaxed regime is preferred. The CAA seems to be favouring a price monitoring and transparency regime, rather than retaining full regulation. This would not set an upfront price cap, but would allow the CAA to monitor M.A.G's pricing behaviour with the threat of investigation. The onus would therefore be on M.A.G to self-regulate and to ensure that it does not abuse its market power. The CAA's remaining concern about full deregulation seems to be that M.A.G does still have significant market power because Stansted's operations are dominated by two main low fares carriers who have major infrastructure commitments at the airport. This concern might disappear if Stansted grows into a more all-round mix of carriers and

destinations, which is M.A.G's stated intention.

14. Research work recently carried out by York Aviation for the London Assembly's Transport Committee (LATC) indicates that the London airports are each served by strong local demand. Strong local demand is a good basis for market expansion. Gatwick Airport Ltd has begun second runway study work which it will be submitting to the Commission, and its July 2012 master plan includes a two runway option for 2030.

15. Birmingham has just embarked on its runway extension and is predicted by the DfT in its 2013 constrained forecasts to triple its passenger throughput from 9mppa in 2010 to 28mppa in 2040, and then to 38mppa in 2050. Manchester (which has two runways) is predicted to grow from 18 mppa in 2010 to 39 mppa in 2040 and 55mppa in 2050, making it the second busiest airport in the UK. Growth toward 55mppa depends, of course, on independent operation of the two runways. No doubt the Commission will consider very carefully the case that Birmingham Airport has made in its *"Don't put all your eggs in one basket – A challenge to aviation orthodoxy"* for a network of long-haul national airports which would support regional trade, foreign investment and tourism. It is noticeable, however, that the DfT is not modelling as much business use at either Birmingham or Manchester Airports in 2030 or 2050 compared to either Heathrow or Gatwick.

16. As part of its opposition to expansion at Stansted Airport to 35mppa and beyond, the Council argued that aviation contributed to a UK tourism deficit, which was bad for the UK economy. As a result, airport expansion which led to increased UK international leisure flying was bound to worsen the deficit. Whilst the BAA Group did not accept this argument, the Council notes that Birmingham Airport has said:

    *"However, the UK exports more tourists than it imports and it will need to overcome this "tourism deficit" if it wants to benefit from the growth of the industry"*
    (Page 5 of Birmingham Airport report)

    The Council hopes that the Commission will consider very carefully the effect of the UK tourism deficit on the UK economy when making its recommendations to the Government.

17. Phase 1 of HS2 will improve UK surface access connectivity not only into London, but also out to Birmingham. A journey time of 40–45 minutes will make Birmingham as or more convenient for London than Stansted currently is, although it is acknowledged that HS2 is some way off. This must give a viable alternative for passengers in the SE who are unable to fly from London. Significantly, the DfT's 2013 constrained forecasts (Annexes G.3 – G.5) indicate that the number of long-haul ATMs at Birmingham increase from 4,000 in 2010 to 44,000

in 2050. Of perhaps even more significance is that the average flight length increases from 1,250km in 2010 to 2,972km in 2050, second only in the UK to Heathrow. At Manchester, the number of long-haul ATMs increase from 16,000 to 56,000 over the same period, although the increase in the average flight length is nowhere near as pronounced as at Birmingham.

18. Annex G.5 indicates that in 2050 there will be no long-haul at Stansted, which conflicts with the intentions of M.A.G. In fact, the average flight length at Stansted increases only marginally in 2050 (1,287km) from its 2010 level of 1,261km. This is in spite of a small peak in long-haul at Stansted in 2030.

*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?*

19. The first three may well reduce the cost and increase the convenience of flying, but there will come a point when market saturation occurs, especially in the leisure sector in the more mature economies as people have no more time or money to fly any more than they currently do. As previously discussed, technological changes resulting in more fuel efficient aircraft should make it more viable for smaller aircraft to fly further, increasing the likelihood of more long-haul point-to-point services from regional airports. The latter appears to weaken the case for developing more hub capacity.

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

20. Heathrow operates at near its runway capacity from about 6am to 11pm each day and is vulnerable to delays and cancellations in the event of an operational incident at the airport or bad weather. Most hub airports operate at about 75% capacity, which gives some resilience should disruption occur. At Heathrow, the lack of resilience means that departing passengers can be subjected to delays and cancellations, especially with short-haul flights which may be cancelled so that the long-haul timetable can be recovered as quickly as possible. Arriving passengers may be delayed at the point of departure, may face cancellations or may be diverted to another airport if already en-route. Transfer passengers who use Heathrow as a hub may also face delays with their onward connecting flight.

21. With only two runways, Heathrow does not have the runway capacity to cater for large waves of arrivals and departures which are necessary to consistently keep transfer times down to a minimum. This is clear from

Box 3 on Page 26 of the discussion paper which shows that Heathrow does not have the acutely peaked pattern of arrivals and departures that occurs at Charles de Gaulle. Doubts have even been expressed as to whether Heathrow actually functions as a hub. At a recent LATC debate on Airport Capacity in London, Simon Calder (Travel Editor: The Independent) said:

*"London is in a fantastic location in terms of being a hub airport but, at the risk of being controversial, I am not sure that we are. I think we are an extremely big city with a large international airport that happens to have a fair amount of transfer traffic".*

22. The Council notes what the LATC said of Heathrow in its May 2013 report to the Commission:

*"The proportion of flights from Heathrow to short-haul and domestic destinations has declined over time but this has not resulted in an increase in flights to emerging markets. Between 2005 and 2012, the number of destinations Heathrow served in Western Europe fell by eight and the number of destinations served in the UK fell by two. In the same period the number of destinations served in the USA rose by ten, the number of destinations served in Asia rose by one and there was no change in the number of destinations served in Latin America".*
(York Aviation technical report for Transport Committee p26)

23. This research appears to indicate that Heathrow is not reinforcing a role as a hub airport by improving connectivity to emerging economies. Rather, scarce slots are taken up by higher value "thicker" routes to the UK's traditional destinations. This is probably a reflection of the history of the UK, its location on the North Atlantic Seaboard and the strong local demand for connections between London and the USA. It also reflects the high cost of slots at Heathrow.

*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?*

24. Increasing the number of runways and increasing terminal capacity will enable a focal airport to handle larger waves of arrivals and departures, which should improve the hub experience for passengers and reduce transit times. Most existing focal airports have 3, 4 or 5 runways. It is likely that there will be a limit to the viable scale probably due to airspace restrictions, but as an airport expands it is inevitable that passenger and luggage transfers will become increasingly complex and more prone to disruption.

25. The Council is concerned at NATS' recent announcement of a delay in the design and consultation on the core region of the London Airspace Management Project (LAMP). In the meantime, NATS will be proceeding with changes to discrete parts of the LAMP area as a

means of providing short term benefits and to "put in place the building blocks to support changes in the core London area at a later date" (NATS letter to UDC of 31/5/13). It is unfortunate that the Commission's final report will now precede the core LAMP work, especially if more hub capacity is proposed within the London airspace area.

*Would expanding UK hub capacity (wherever located) bring materially different advantages and disadvantages of expanding non-hub capacity?*
*<u>and,</u>*
*Do focal airports and non-focal airports bring different kinds of connectivity and, if so, which users benefit the most in each case?*

26. Focal airports bring wide connectivity, in particular routes that are only viable due to the economies of scale that the hub activities bring. The catchment area of origin/destination passengers who use focal airports is therefore likely to be widely dispersed, leading to a consistent demand for services, even if they may only be once or twice a week to some destinations. Services from focal airports may be of particular benefit to business travellers, and there may well be beneficial agglomeration effects from businesses locating in close proximity to the focal airport. From 2010–2050 the DfT's 2013 constrained forecasts indicate that the percentage of international business travellers at Heathrow will increase from 21.3% to 26.4%. This increase reflects the high amount of transfer traffic at the airport, the importance of London as a business destination in its own right and the high value of slots.

27. Non-focal airports operating point-to-point services will be more reliant on local demand and demand from areas where surface access to/from the airport is relatively easy. These types of services will therefore be more prone to change if local demand fluctuates, and will especially serve the leisure market. Some point-to-point leisure demand will be generated by the mere fact that you can fly to a particular destination from an airport, rather than it being a flight to a passenger's destination of first choice.

28. At Stansted, the drop-off in demand from the UK leisure market is the principal reason why throughput declined from 2007/8 to 2013. The DfT's 2013 constrained forecasts indicate that the percentage of international leisure passengers at Stansted will grow from 68.3% in 2010 to 72.5% in 2050, reflecting an enhanced role as a point-to-point airport. If "Future 2" is the way forward, non-focal airports will take on an increasingly important role as more long-haul point-to-point services are introduced.

*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?*

29. One main effect would be the opportunity to slow down, halt or reverse any leakage of transfer passengers as a result of the lack of capacity at Heathrow. The opportunity would also exist to capture new transfer passengers who currently use other European hubs. Expansion of hub capacity in the SE would enhance hub-and-spoke operations in the UK, but at the risk of further straining London airspace and increasing the regional divide. If the Commission is to recommend an expansion of hub capacity in the SE, the Council considers that there is a strong case for "ring-fencing" some slots at the new / expanded hub for regional services.

30. Any expansion of hub activity in the SE will need to overcome some acute environmental issues. At Stansted noise is a key issue, but as fewer people are affected than at Heathrow or Gatwick, residents near to Stansted will always lose out when comparisons are made. The Council considers that much more significance should be given to irreplaceable losses of rural landscape, habitat and heritage when considering proposals involving land-take. The Commission is urged to give considerable weight to these factors, and mark down any proposals submitted to it which do not address these in full.

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

31. It is likely to vary. A benefit from interlining transfer passengers is that they help to support hub routes that might either not be viable at all, or would otherwise operate at a lower frequency. They may also spend money airside in cafes, restaurants and duty free shops if they have the time. Self-connecting passengers may also do those things, but they may also spend money landside when checking out and checking in again.

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

32. No. Table 4.2 of the discussion document indicates that twice as many UK regional airports operate services to Schiphol compared to either Heathrow or Gatwick. This must indicate that there are advantages to so doing and not just because of capacity constraints in the SE.

*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?*
*<u>and</u>*

*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?*

33. Geography is a good starting point. It is interesting to look at Figure 3.4 on Page 28 of the discussion paper. This figure shows 2010 population densities in Europe, overmarked by the locations of the main focal airports (Heathrow, Madrid, Charles de Gaulle, Schiphol and Frankfurt). The UK is unique in that it has three areas of the highest population density in Europe (above 1000 inhabitants/sqkm), namely London, the West Midlands and Greater Manchester/Merseyside, all in relative close proximity to each other. The Greater Manchester/Merseyside metropolitan area is also well located to serve Northern Ireland and Tyneside / Southern Scotland. There is every reason to assume that that the UK aviation market could be well served in the future from major regional airports without establishing a secondary hub.

34. There is no evidence that an airline or alliance is intending to establish a secondary hub at one of the UK's regional airports. As previously mentioned, it seems more likely that any such provision would be at one or more of the other existing European hubs where there are already high levels of transfer passengers.

*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?*

35. This seems highly possible especially as more and more point-to-point services are likely to be introduced using modern long range, lower capacity aircraft.

## CONCLUSION

36. There is sufficient capacity in the UK airports system to meet the DfT's central, constrained demand forecasts until 2030 – 2040. All three "futures" identified in the discussion paper are plausible, and with the progressive introduction of the next generation of aircraft regional airports ought to be able to compete for the demand that will be generated, especially from the emerging economies.

37. The Council is not convinced that there is a case for expanding SE hub capacity. The eventual introduction of HS2 and the geography of the UK should make the Midlands airports as easy a choice for many as the London ones.

38. The DfT's forecasts continue to show Stansted dominated by short-haul leisure services through to 2050. Whilst some long-haul may be introduced, there is no evidence that Stansted will become anything other than a regional airport supporting regional demand.