Airports Commission

Discussion Paper 04:
Airport Operational Models

Response from the British Air Transport Association (BATA)
June 2013

Introduction

The British Air Transport Association (BATA) welcomes the opportunity to submit a response to this discussion paper on "Airport Operational Models" from the Airports Commission.

BATA is the trade body for UK-registered airlines, with members representing all sectors of the industry. In 2012, BATA members employed 73,000 people, operated four-fifths of the UK commercial aircraft fleet and were responsible for some 96% of UK airline output, carrying 131 million passengers and 1.1 million tonnes of cargo. The eleven BATA member airlines are: British Airways, DHL, easyJet, Flybe, Jet2.com, Monarch, RVL Group, Titan Airways, Thomas Cook, Thomson Airways and Virgin Atlantic.

Please accept this response to Discussion Paper 04 in which we stress the key messages we feel the Commission should consider.

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?

As the remit of the Commission is "to maintain the UK's status as an international hub for aviation" we consider that both hub capacity and non-hub capacity should be increased where and as required. There is mounting evidence from a wide range of business and other interests including the IoD, CBI and London First that provide the evidence for provision of extra capacity, especially in the constrained south-east. Increasing the UK's capacity beyond its current constraints is essential to maintain the UK's competitive position.

In order to expand the UK's long-haul connectivity, adequate hub capacity is required. Expanding UK hub capacity and long-haul connectivity will ensure that there is sufficient capacity for airlines to satisfy demand. This will support increased trade relationships and economic activity resulting from the maintenance of existing route networks and the development of new short- and long-haul routes. The economic benefits associated with enhanced hub and non-hub capacity are likely to be greater than those offered by expanding non-hub capacity alone, as this will ensure there are no artificial limits on capacity. Where capacity is increased in line with demand, rather than any other policy driver, 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?

It is extremely difficult predicting the future, especially in the aviation industry. However, we would argue that the most likely future is somewhere between 1 and 2 – ie there is further consolidation of airlines and strengthening of alliances, with the result that the dominant role of major focal airports is enhanced with other airports increasingly used by low-cost carriers and to provide spokes into hubs – while also at the same time seeing slower growth in the European aviation sector as Middle Eastern and Far Eastern carriers develop a more dominant role. However, we believe that rather than a set future, this represents the competitive challenge that UK and European aviation will face. In order to provide the best outcome for our customers, UK and European airlines and airports will need to rise to the challenge. They are well-placed to do this providing we have the necessary airport capacity.

BATA believes that there will continue to be the 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.

With regard to Future 2 outlined in the Consultation document, BATA believes it is important to recognise that that this scenario would see the UK accepting that it would effectively be outsourcing UK connectivity to third country suppliers of airport services. BATA believes that this could result in welfare losses for consumers in the form of reduced competition for UK passengers and reduced availability and security of UK connections to global destinations. It is inevitable that where direct long-haul routes are not available, those passengers originating in the UK will risk incurring additional costs in reaching foreign hubs. These costs will take the form of increased total journey times, potentially increased total fares, and potentially sub-optimal schedules for UK passengers.

Moreover, the Commission must recognise that there are significant shortcomings to some emergent 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, emergent hubs such as Dubai or Istanbul, while very well located for UK passengers travelling to a wide range of destinations, are much less well placed for other destinations. For example, a passenger forced to reach Johannesburg via Dubai will incur a significant delay with attendant cost, environmental, and time impacts, because the London-Dubai sector represents a significant “dog-leg” compared to a direct London-Johannesburg connection. For some routes, therefore, emergent hubs outside Europe are unlikely to be competitive over the long term. European hubs are therefore likely to remain better placed to serve UK passengers’ - and the UK economy’s needs.

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 aviation market will continue to evolve in ways outlined by the Airports Commission but BATA does not believe this will fundamentally change the case for expansion of hub versus non-hub capacity. Both hub and point to point capacity should be expanded where and when needed. We do 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?

Capacity constraints result in less choice of routes and services as frequencies come under pressure and existing marginal services are lost. Similarly, it is difficult to establish the frequencies needed to make new services attractive. The airport also suffers from a sub-optimal level of resilience to disruption due to the system of runway segregation.

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?

Larger airports benefit from economies of scale and offer a larger choice of routes to local people and businesses. Large EU focal airports that have grown significantly in recent years such as Frankfurt and Amsterdam Schipol operate very effectively with sufficient capacity to allow network airlines to offer frequencies and route networks which draw in transfer passengers from other EU countries, to the likely benefit of their national economies. Amsterdam and Frankfurt now offers around 250-275 routes respectively compared to about 165 from Heathrow which has been steadily losing routes in recent decades 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.

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

In general, industry experience shows that good availability of long-haul flights goes alongside the use of hubs. Long-haul routes are typically thinner routes and have schedules and cabin configurations which are often more oriented to business passengers than are many short-haul routes. A greater number of transfer passengers is likely to support a greater number of frequencies and/or routes. As the Commission notes at paragraph 3.13, a large majority of long-haul passengers to and from the UK do so via Heathrow airport. However, if long-haul destinations which are served purely on a charter basis or which are exclusively – or near exclusively – leisure destinations (which account for the vast majority of long-haul flights from Gatwick, Manchester, etc.) and those services which serve foreign hubs, are stripped out of the analysis, the importance of hubs to supporting long-haul routes would be shown to be even stronger.

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

Yes. Users derive greater benefit from a wider choice of destinations and operators when an airport has adequate capacity to meet demand. Focal airports are able to support routes and frequencies - by supplementing local demand with transfer demand - that non-focal airports cannot support with local demand alone. 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. As the UK's hub has effectively been at capacity for over a decade, expansion would allow UK airlines and airports to serve the customer demand that has either been lost to foreign airlines and airports or suppressed by the UK's capacity constraints.It is key that new hub capacity is both affordable and located where airlines and passengers will use it. Unaffordable or poorly located capacity will not be used and risks being a ‘white elephant’.

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

Transfer passengers help generate and maintain connectivity with a wider range of long haul destinations with regular frequencies than would be possible without the ability to supplement local demand with transfer passengers. The ability to reach the UK direct, without the need to transfer at an intermediate point, or to reach foreign markets directly from the UK, is clearly preferable for time-sensitive business passengers.

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

BATA believes there are significant risks associated with an increasing reliance on overseas focal airports to provide connectivity for the UK. Relying on overseas airports will lead to a degradation of UK connectivity, as foreign airports assume a major hub status, with links to range of UK airports, while the existing UK hub capacity slowly withers. Instead of hosting a hub, the UK as a whole would instead be reduced to being a spoke for a number of foreign hubs. As a country we would be handing over a strategic national asset and resource – the responsibility for and control of our connectivity with the rest of the world - to foreign airlines and airports and would no longer be in charge of our own destiny. This would have serious implications for the future security of the UK’s global connectivity.

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 UK is a collection of islands off the coast of North West Europe with only one fixed land based connection to the continent. The role of aviation in maintaining the UK’s connectivity has to be seen in this context. London is a world city and the size of its local market for aviation is significantly greater than any other major urban area in the UK. Unlike countries such as Germany whose demography can support a number of larger airports supplementing its hub, the UK airport system will continue to be dominated by London with a wide array of connections to and from the regions.

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 do not believe that this would be practical or successful. The UK can support one ‘focal’ airport – as can other countries such as France, Germany, Netherlands and to a lesser extent, Spain and Italy. Airlines and alliances support each other and their gathering in one location creates mass and momentum as well as providing passengers and customers with the widest choice and options for travel. It should be noted that despite the capacity opportunity for a new hub to be established, e.g. with new runway capacity in Manchester, none has been established over the last 10 years indicating that airlines do not see a viable opportunity to do so. Without an airline or alliance willing to do this, establishing a secondary hub will not be possible.

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?

We do not agree with traffic distribution rules. These have been tried in the past and proved counter-productive leading to lost traffic and significant market distortion. The Commission would also need to consider very carefully the possibility of precipitating retaliatory actions by foreign governments were any carriers “evicted” from Heathrow, or any other airport.

BATA believes that the most effective way to incentivise airlines to consider alternatives to focal airports is not through the adoption of heavy-handed interventions, but by ensuring that airports have sufficient surface access, passenger facilities, appropriate infrastructure and – vitally – competitive operating costs and therefore prices.

Summary

The UK’s economy needs to compete in both established and emerging markets. This requires excellent aviation connectivity right across the country, ensuring the UK has both vibrant point to point airports and sufficient world class hub capacity. This means prioritising a favourable planning and regulatory regime and developing a bold aviation policy, providing for new airport capacity where it is required. To ensure there is no further erosion of the UK’s competitive position, the Government must set a clear commitment to such measures being put in place, as part of a new aviation policy that truly maintains the UK’s status as an international hub for aviation.

BATA
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