Airports Commission Discussion Paper 04

Airport Operational Models

SUBMISSION BY THE RICHMOND HEATHROW CAMPAIGN

July 2013

This submission is the response from the Richmond Heathrow Campaign (RHC) to the Airports Commission's *Discussion Paper 04: Airport Operational Models*. We do not consider that the contents of this submission are confidential and we have no objections to its publication.

The Richmond Heathrow Campaign represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members.

The members of our amenity groups are adversely affected by noise from Heathrow Airport's flight paths, particularly at night. We favour a ban on air traffic at night at Heathrow. We are opposed to the introduction of mixed mode and to the development of additional runways at Heathrow.

We nevertheless recognise the importance of air transport; and the need to make provision for handling additional air passengers. We therefore wish to make a positive contribution to the Airport Commission's work.

We have responded to earlier Airport Commission Discussion papers, 01 to 03 covering Demand, Connectivity and Climate Change and we have submitted *"Proposals for making the best use of existing airport capacity in the short and medium term"*. These submissions contain evidence and analysis relevant to the Operational model. In the next week we shall be submitting our *"Proposal for providing additional airport capacity in the longer term"* and this will contain further evidence and analysis that suggests international transfers are a problem rather than a solution. Transfers are a distinguishing feature between the hub and non-hub airport models. Indeed, we will be recommending replacement of international transfers at Heathrow with growing local demand over time, which we argue will make best use of existing capacity for meeting demand in terms of passenger numbers and connectivity. We developed this approach in our proposals for the short to medium term and this will be extended to the longer term in our forthcoming submission.

Given our limited resources and the urgent need to focus on finalising our Proposals for the longer term and the fact that we have covered or will shortly cover many of the issues raised by the Operational Models Discussion Paper, we make only brief comment in this response. To this end, firstly we provide brief description of the direction we are heading in regarding the choice of model, and secondly we comment on some key issues in the Discussion Paper. We have not attempted to respond to all the specific topics in detail on which the Paper invites response.

Contact Details

Peter Willan, Chair, Richmond Heathrow Campaign, 7 The Green, Richmond, Surrey, TW9 1PL
Tel: 020-8948 4142
Email: willan829@btinternet.com

Hub versus non-hub: the Richmond Heathrow Campaign Position

A hub airport can be described as one in which a sizeable proportion of the passengers are transfers and where physical facilities cater for substantial numbers of transfers and airlines facilitate the transfers.

Our case is that international transfers are not needed as an ever increasing number of passengers at a single airport to support aggregation on individual flights. The issue is how might the existing capacity of London's five airports and regional airports best share in growing point-to-point demand which is broadly the dispersed model described by the Commission's Paper and the one we support.

We expect some transfers, particular domestic transfers, to continue at each of the London airports and therefore to varying degrees the continuation of the physical and operational components of what might be described as a hub or focal airport. The missing dynamic is the need for ever increasing aggregation by way of transfers and associated growth in transfers and capacity that this requires. The dispersed model that we envisage would not involve a high enough level of transfers to justify any of the airports being described as a hub or focal airport but perhaps this is just semantics.

A reduction of international transfers at Heathrow would free up capacity for growth in local demand and connectivity and we submit that this is one of several reasons that no new runways are needed until at least 2050 and possibly beyond. Therefore, concentrating demand growth at a single hub airport is not justified either by there being unmet demand or by the need for transfer aggregation.

Our response to Issues raised by the Discussion paper

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 well sets out the many factors that need to be taken into account in forming a decision. We believe that it does not of itself enable one to value each of the alternatives quantitatively, which is necessary for a decision. We suggest the first question is whether any new capacity of any sort is needed. The second question is what type of capacity is needed and to what extent this might apply to new capacity and to a change in existing capacity. Presumably the Dft Passenger Demand model would facilitate this analysis. Our quantitative analysis, as explained above, is that no new capacity is needed over the long term to 2050 and beyond and that over time the existing international transfer capacity should largely be replaced by point-to-point capacity as terminating demand in the southeast expands. Understandably, the analysis by the Commission perhaps has to be neutral at this stage and we do not think it supports any particular case.

We contend that focus by the aviation industry and media has for too long concentrated on the aviation issue as being almost solely a runway and hub issue. In our view the debate should start with passengers and what they want and their numbers now and in the future. As pointed out by the Discussion Paper, demand broadly correlates with economic activity and price. But in order for UK PLC to take a share of the passenger demand, like any industry or company, it needs to focus on market segmentation and product differentiation now and in the future. This demand needs to be serviced by the airlines and airports and each model needs to be costed and compared against revenue, both for individual participants and the UK as a whole. The business case for each type of participant is needed because it will influence their behaviour.

We expect that much of the evidence for undertaking the above is available but it may need to be sourced, validated and analysed.

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?

If by 'credible' it is meant 'feasible', the answer is yes. The question of likelihood is another matter. We are somewhat doubtful the outcomes can be restricted to three alternatives packaged in the way suggested. Also, it is clear from the Discussion Paper that the future is uncertain but less clear how the industry might deal with uncertainty. A runway might involve a development over ten years to first take off and another ten to reach discounted payback for investors, so the project decisions are capital intensive and long term and any slippage of revenue can have serious consequences. The credibility of the three 'futures' in our view very much depends on how financial and other uncertainty is dealt with and the Discussion Paper is not very clear on this point.

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 agree that the identified trends all impact the outcome, but we are not led to any particular conclusion from the Discussion Paper itself, and as said above, this presumably reflects the neutral position of the Commission at this stage. Our own analysis of historic trends and extrapolation does firmly lead us to travel in the direction of a dispersed non-hub model. We respectfully suggest that trends in aircraft fleet loads might be given greater prominence. Our analysis suggests higher growth rates for loads than contained in the Dft model and this effectively adds passenger-runway capacity to the point where passenger terminals rather than runways are the likely constraint, albeit at higher passenger numbers than in the Dft constrained case. Our analysis of Heathrow destinations and service frequencies suggests frequency trends could be given more prominence. New York has a daily service (arrivals and departures) of 26 from Heathrow. With doubling of demand in general over the next 40 years is it really likely passengers will value at the margin a daily service of 52 – we think not. At the other end of the frequency spectrum our analysis raises doubts as to the number of low frequency long haul destinations that benefit from transfers.

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

The evidence presented in the Discussion Paper suggests Heathrow does suffer in terms of minimum connection times and other measures from not operating the wave system as deployed, for example, in America. Our research shows Heathrow operates at near peak capacity during the course of a day only at certain times but it seems unlikely that a full wave system could be introduced unless slots were reduced in number, for example by 10% to 430,000 movements a year. But, as discussed, we doubt the benefits of international transfers anyway for which the wave system is primarily designed.

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?

We suggest there are diseconomies of scale that can set in, such as congestion in the air, on the ground and with airport access. Particularly important is the concentration of noise and pollution. When and how the diseconomies set in will depend on the individual characteristics of each airport.

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.

Hub capacity to us means concentration of capacity and ever growing capacity additions. Non-hub capacity can also be concentrated but unlike hub capacity can otherwise be dispersed among several airports. We will be summarising the economic, social and environmental impacts in our longer term Proposals.

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

Connectivity comprises a list of destinations and service frequencies. Of course some destinations are more valuable than others and people place different values on service frequency. The difference between the two models is the number of transfers and all that that entails. The biggest direct impact is that a focal airport with relatively high levels of international transfers facilitates connections for travellers who do not add to the UK economy directly. As said above, our analysis suggests that few destinations rely on such transfers for viability. The more prevalent impact is to increase frequencies often to popular destinations that at the margin provide little benefit from still higher frequencies. We believe the cost of using scarce airport resources to serve currently some 20 million international transfers at Heathrow outweighs the economic benefit to the UK. Arguably the transfers give rise to some 30% of the noise around Heathrow. They do benefit the airlines in terms of revenue. A non-focal airport for the same number of terminating passengers can be smaller and simpler. The number of destinations and frequencies, assuming common loads, would be less but, as we have said, an equivalent number of destinations can be provided at the expense of some high frequencies which have little marginal value.

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?

A major expansion of hub capacity or indeed any capacity we have said above is not needed. Excess capacity can increase resilience but airlines are likely to use the capacity to draw in ever more international transfers which we argue are of little, if any, marginal value. The risk is high capital cost for little benefit. The large capacity may be able to compete with hub capacity in Europe but to minor effect and even less so with Middle East and other hub capacity. There is already excess hub capacity in Europe. We believe the UK should choose the model that it is best suited to and not one just because it seemingly suits others.

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

Transfer passengers do not benefit the UK economy directly, other than adding revenue to airlines and airports. But the costs of taking up scarce capacity at Heathrow are high (to the extent transfers are the cause of the problem) and we doubt there is any net benefit. We believe the aggregation benefit from the evidence we have gathered is overstated.

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

No comment

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?

We believe the large growing catchment area of the southeast is best served by a group of point-to-point airports. The aggregation from the substantial demand should provide the critical loads for marginal destinations. It is somewhat perverse that the community should bear the burden of all the noise from serving 20 mppa international transfers with little benefit. Reducing international transfers will free up capacity for local population to use local airports. Investing in better surface transport to the airports so as to lead towards passenger indifference as to choice of airport would incur costs but produce benefits that can be shared with the community at large. The density of the short-haul network should support moderate levels of transfers at dispersed airports and is therefore of benefit.

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 see a net benefit in airlines and alliances using dispersed airports and there may well be a case for some transfers. But we do not think there is a case for these to be sufficient in number to consider any one of the airports as a Focal airport over the longer term once Heathrow has replaced international transfers with local demand.

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?

We consider a dispersed model, with one airport having a disproportionate number of transfers and associated feeders, as feasible but this is just one of several ways the business may divided between airports. Also, our preferred model does not favour Focal airports.