Bluespace Thinking Ltd - Evidence to the Transport Select Committee Inquiry into Aviation Strategy. Oct 2012

Bluespace Thinking Ltd have no commercial interest in aviation and are not located near or impacted by any airport. Our objective in submitting evidence is solely to provoke objective thought and hopefully help improve Government and parliamentary decisions.

1. Summary

1.1 Currently there is spare capacity at Stansted and Gatwick also Heathrow is 5-6% below its previous peak demand level. It is possible to get a flight the next day to and from London to virtually anywhere in the world, if booked further in advance air fares are competitive, cheaper than rail and road and many are less than the cost of a taxi to the airport or car park fees.

1.2 Public transport to and from the principle areas of passenger usage (London and the South East) is not particularly good. For many people the duration of travel to the airport, security checks, check in or bag drop off times and immigration checks take longer than the flight.

1.3 The majority of passengers at the airports are travelling for leisure, any major increase in demand will therefore lag not lead an economic recovery.

1.4 The key question being asked by politicians and the public is whether a third runway at Heathrow, a new Thames airport or expansion at Stansted, Gatwick and the smaller airports are the most appropriate solution to the need for increased airport capacity over the next 20 years.

1.5 Our analysis shows that extension of Stansted, Gatwick and the smaller airports is a viable solution. The DfT Draft Aviation Policy Framework July 2012 [1] along with a short visit to the relevant locations provides compelling evidence that the social impact of noise at Heathrow should preclude its further expansion. The analysis of DfT and CAA data shows that there is no economic benefit in trying to extend Heathrow hub services

1.6 A new major hub airport in the Thames or elsewhere at a cost of about £50 billion is unnecessary and would be uneconomic however additional capacity equivalent to Heathrow will probably be required in 20-25 years time so if a major new airport is not built significant expansion at Gatwick, Stansted and the smaller airports along with larger aircraft and more direct flights (less hub services) will be required.

2. Bluespace Thinking Analysis

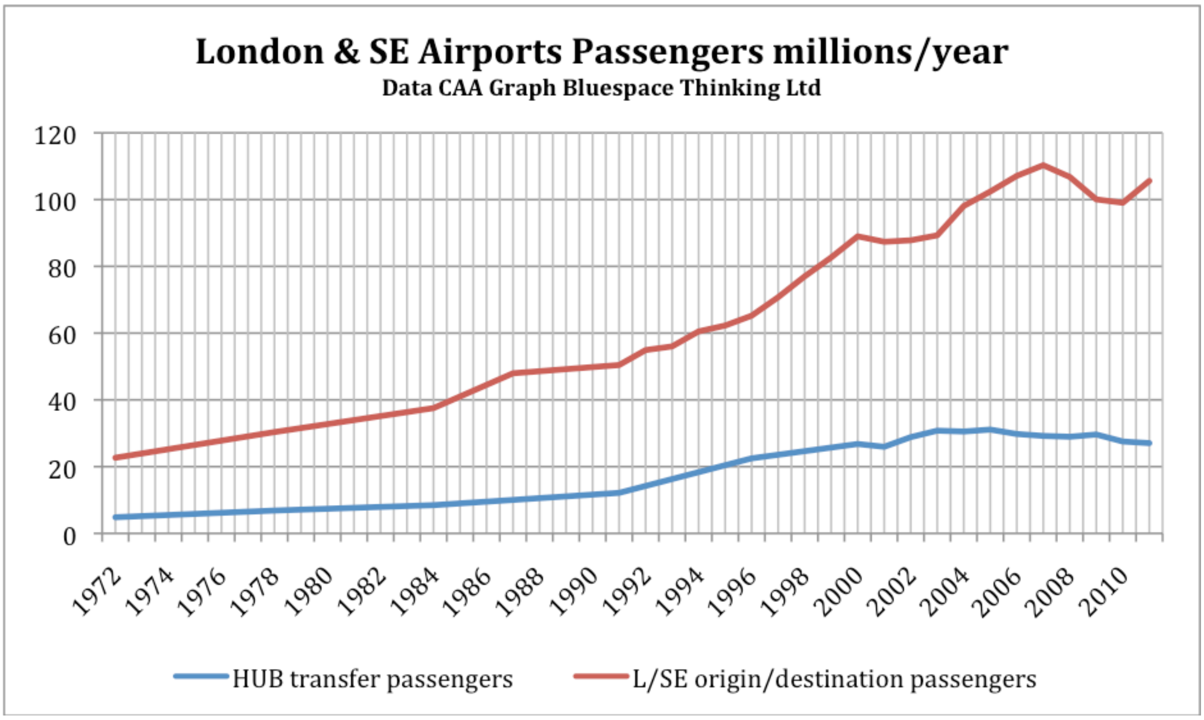
2.1 The key to deciding how to provide additional airport capacity in London and the South East is to analyze and understand the passenger markets. DfT segment the markets into Domestic/International, Leisure/Business, UK/Foreign residence, regional destination and market maturity.

2.2 DfT reports [2] have been aimed primarily at predicting overall future growth however the key to deciding if a major new hub airport or the expansion of Heathrow is required is to segment and analyze the markets based on whether passengers have a London/SE origin or destination or whether they are “domestic” or “international to international” hub transfer passengers.

3. Understanding the markets

3.1 The graph shows the growth of these markets over the last 40 years. The data comes from the CAA airport surveys [3], which along with CAA reports and commentary and DfT forecasts and studies provide a good evidence base for understanding the market.

3.2 Based on what has "actually happened", as opposed to a narrative interpretation, the graph shows that while the origin/destination market is growing the hub/transfer market is not.



4. Key past events

4.1 Between 1972 and 1990 there is limited publically available data, it has been necessary to interpolate between the available data points. The increase in growth starting in 1992 is as a result of EU deregulation of the air industry enabling the emergence of lower cost direct routes. The dip in 2001 is as a result of the events of 11th Sept 2001. The decline from 2007 is in part due to the economic situation but appears to start a year or more before the recognized economic slump. The figures for 2010 are depressed due to the Icelandic volcano, without this a recovery from 2009 would be more evident. Preliminary part year 2012 data suggests a further 1% increase in total numbers.

5. London & SE Airports origin and destination passengers

5.1 Due to the "events" since 2001 it is not possible to predict deterministically the rate of growth that will occur as GDP eventually starts to improve. It is however logical that it will increase at between 2-4% /year due to a combination of population increase and more disposable income for holidays and trips.

5.2 The majority of these journeys through the airports are for leisure by those in the 20-55 age band living in Greater London. At some point the amount of time this working age group has available for leisure purposes will restrict the growth however if it were to continue for 20 years it could add about 60 million passengers. Business travel may re start to grow or may be curtailed by the further use of information and communication technologies however this will not make a significant impact to the level of overall growth.

6. Hub transfer passengers

6.1 This market shows a very different trend, although passenger numbers grew between 1992 and 1997 as a result of deregulation, from 1998 there is a picture of classic market maturity, saturation and decline. As European, world and UK regional economies grow it is logical that there are more direct flights between locations and in a relatively mature market, as in the UK and Europe, London Hub transfer passenger numbers would stay flat or decline irrespective of the capacity available.

6.2 DfT analysis carried out in 2009 shows this clearly; the detailed work shows that domestic transfer passengers at airports in the UK are predicted to decline by about 60% by 2030. Although one could carry out more detailed analysis it is unlikely an accurate deterministic prediction could be established. Given the past trend it is probable that the total hub transfer market will decline in the range of zero to -2% /year. Probabilistically over the next 20 years this could decrease the London Hub market by about 8 million passengers/ year.

6.3 London has been the major hub location for European flights to North America as it lies on the shortest great circle route to many European destinations. However for Far and Middle East routes German hubs are much better located. For passengers from Scandinavia and mainland Europe their journey would be significantly longer if they were to route through London. Geographic location will work against London capturing a larger share of a declining hub market but this is not the same as London capturing further business opportunities by having an airport infrastructure plan that substantially improves journey times, passenger experience and available capacity, from journey origin to destination.

7. Economic value of additional airport capacity

7.1 Establishing the value of the London & SE origin and destination market is complex. With available capacity at Gatwick and Stansted it is unlikely that leisure flights or business opportunities are currently not occurring because of airport capacity restrictions however within 20 years the value of the lost opportunity, if capacity is not increased, will be measured in £billions.

7.2 The value of the hub transfer market decline is easier to estimate. The value to the UK is the airport fees charged and any retail expenditure at the airport. This is probably about £20 for each arriving and departing passenger, valuing the potential 8 million passenger decrease at about £160 million/year.

There is a debate about whether the hub/tranfer market is being curtailed by capacity restraints; certainly operators would like to fly more flights out of Heathrow. However It is difficult to see that there is an economic case for providing more hub/transfer capacity when what is needed is more capacity for origin/destination passengers with ease of access to and from their London and SE home and business locations.

8. The question(s) to be answered

8.1 The Independent Commission [4] set up by Government has a remit that presupposes that maintaining the UK's position, as "Europe's most important aviation hub" is synonymous with providing the best possible airport infrastructure to enable and support UK economic growth. Is Government's objective to have "Europe's biggest airport" or to grow the economy with jobs and a good quality of life for all?

8.2 Questions that seek to understand and allow for the evolving nature of air travel particularly the increase in direct flights from regional airports in the UK, Scandinavia and Northern Europe and the emergence of hubs in the Far and Middle East maybe more helpful. Below is our response to the main questions; clearly there are also many more detailed issues that need to be addressed.

8.3 Do London and the SE need additional airport capacity? – Yes but not urgently, a good plan however is required to provide confidence. It would be preferable if the plan encompassed all relevant major rail and road strategic decisions and improvements to local transport networks to work towards a strategic integrated plan.

8.4 Does London need a new hub airport or a significant extension (third runway) at Heathrow? - Probably not, the value and economic role of hubs could well become less significant to the UK as the market further matures. Development at Stansted, Gatwick and the smaller South East airports could provide a better alternative for the next 20 years than a new Thames airport

8.5 Should, as the DfT have proposed in their Draft Aviation Policy Framework, the management and control of noise be a key objective in evaluating options for increasing air port capacity? Yes the brief evidence included in the policy framework is compelling in the need for noise to be considered, page 49 of the framework document provides the key data. A short visit to communities near to the runway takeoff routes painfully enforces the point.

Malcolm Griffiths
Director
Bluespace Thinking Ltd

References and Data sources

[1] DfT Draft Aviation Policy Framework July 2012
http://assets.dft.gov.uk/consultations/dft-2012-35/draft-aviation-policy-framework.pdf

[2] DfT UK Aviation Forecasts August 2011
http://www.dft.gov.uk/publications/uk-aviation-forecasts-2011

[3] CAA Airport Surveys 1990 – 2011
http://www.caa.co.uk/default.aspx?catid=81&pagetype=90&pageid=7640

[4] Secretary of State for transport announcement Sept 2012
http://www.dft.gov.uk/news/statements/mcloughlin-20120907a/