

Bluespace Thinking Ltd Oct 2013

Review of the Airports Commission interim findings.

We concur with the Commission's interim findings that new runways are required however based on the 2012 CAA Passenger Survey Report (published Oct 2013) there is now further evidence to suggest that a significant disconnect between air travel growth and GDP has occurred in the business market and possibly the Hub market.

1. Demand forecasting

1.1 We think DfT's demand forecasts continue to be modeled on the assumption of a return to pre economic slump growth relationships with some later impact of market maturity. We have previously questioned this view but had not seen strong evidence to contradict it, with minimal real GDP growth from 2011 to 2012 combined with a clear decrease in some air markets we believe that evidence now exists. It is however still very difficult to see what the relationships going forward will be.

1.2 It is crucial to understand what is happening in the sub markets to decide if airport expansion is required to support overall economic growth, to support capacity for leisure travel or to facilitate the increase in international to international hub air transport trade.

2. Economic benefit and Environmental impact

2.1 The environmental impacts of additional flights (particularly noise and carbon emissions) may need to be tolerated to support economic growth and the quality of life provided by leisure travel, they maybe less tolerable if the growth is to facilitate the increase of international to international Hub trade.

2.2 This activity maybe profitable for those businesses directly involved but may not be in the best interests of the UK particularly if it leads to the need for increased carbon reductions in other industries. The current emissions carbon value multiplied by the emissions associated with these passengers may well negate any direct economic benefit of the trade.

2.3 While the EU regulatory regime may preclude interventions to influence the use of UK airports to preferentially serve those markets that maximize the UK's economic benefit and reduce environmental impact it is still important to fully understand how the markets may develop.

2.4 If growth in the international to international hub market requires additional runways at Heathrow or a new mega airport and due to environmental and knock on economic considerations this is not an attractive activity for the UK then the Commission's decision in phase two may impact on the economy in a way that is not currently understood by the public.

2.5 The government appear myopic in their view that increased business travel produces increased economic growth and that more transport capacity generally and more airport hub capacity specifically will create increased business travel.

3. Bluespace Thinking analysis.

3.1 From the CAA passenger surveys we have looked at passenger usage in 2006, 2011 and 2012 through Heathrow, Gatwick, Luton & Stansted (London and SE airports) and Birmingham, East Midlands & Manchester (Midlands and North airports).

3.2 Real GDP variation between the years considered has been minimal (2006 - £1502bn, 2011 - £1502bn, 2012 - £1504bn - Treasury pocket book) so any travel variation observed will not be attributable to GDP although it maybe attributable to changes in GDP/person.

4. Within & direct to/from the UK - Business travel

4.1 Business travel starting or terminating at the London & SE airports declined by 5.3% between 2011 and 2012, the decline at Heathrow of UK based business travel was 9.3%.

4.2 The decline since 2006 is 17.8% overall, this is logical given that GDP is the same but that business efficiency has been increased by the substitution of Information and Communications Technologies (ICT) in place of physical travel. The decline at the Midlands and North airports has been 20.6% over the same period. It is productivity gains like this that have provided much of the pre slump GDP growth.

4.3 Business travel starting or terminating at the airports represents 17.5% of passengers and 20.6 % of Heathrow passengers. What has happened in the business market is, we think, outside of the range of industry and DfT forecasts.

5. Within & direct to/from the UK - Leisure travel

5.1 Leisure travel overall increased by 0.5% between 2011 and 2012, the total increase since 2006 has been 0.6% although GDP/capita is less in 2012 than 2006 the increase is within the range of the DfT forecasts and it is reasonable to assume that growth will increase again as GDP/capita increases although it is unclear when this may occur.

5.2 Leisure travel starting or terminating at the airports is 64.4% of the overall market. It is the underlying growth potential in the leisure market that convinces us that further runways in the SE will be required within the next 10-20 years.

6. Domestic connections

6.1 Domestic connections represent 2.3% of the airports market and have decreased by 25.2% since 2006, 70% of these occur at Heathrow where they represent 3.9% of the total passenger throughput. Increased GDP may well increase the number of direct flights from the regions resulting in a further decrease in domestic connections.

7. International to international connections

7.1 International-to-International hub connections have increased by 0.2% since 2006, they represent 15.8% of passengers overall but 32.9% of Heathrow passengers up from 29.9% in 2006.

7.2 89% of these passengers go through Heathrow and they are, based on the CAA survey residence data, travelling between Europe and the USA. Like the

Business market the relationship to GDP growth of this market is unclear, while European and US economic growth may result in more air travel it is likely it will also result in more direct flights and less use of European hubs.

7.3 It is difficult to see that London will emerge as a major international hub for travel to long distance destinations to the south or east of Europe. The pattern of decline in this market up until 2006 and DfT's detailed analysis both suggest that this market will not grow as GDP increases and may well decline.

8. Conclusions

8.1 The Commissions phase 2 recommendations will be heavily dependant on an understanding of the growth requirement of the UK Business market and the growth potential, economic attractiveness and environmental impact of the international to international hub market.

8.2 We have observed but not previously provided evidence to the Airports Commission we have taken the view that we could not add much to the approach being taken and evidence being collected by the Commission. We did however provide a paper to the Transport Select Committee in Oct 2012 and we attach this for background information and further explanation of our views.

8.3 The latest information from the 2012 CAA Passenger survey adds weight to the view that re emergent growth in the business market can not be assumed and that further growth in the hub markets both international and domestic maybe doubtful.

8.4 We therefore draw this information to the Commissions attention.

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