
RESPONSE TO DISCUSSION PAPER 04 ON AIRPORT OPERATIONAL MODELS

SUBMISSION BY GATWICK AIRPORT LTD

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Introduction

This submission is the response by London Gatwick to the Airports Commission discussion paper 04 on Airport Operational Models. The submission is in two principal parts – the main document which responds to each of the questions posed by the Commission, and a separate set of comments on the Commission's paper which are contained in Appendix 2.

Summary of key points

We welcome this paper by the Commission as a very helpful contribution to the debate about the UK's future airport capacity. Too much of that debate so far has consisted of exchanges of opinions about which airport developments would provide the best answers, and there has been a distinct lack of focus on what are the questions which need to be answered. The Commission's paper starts to fill that gap.

The UK is the third best connected country in the world, after the USA and China, and the best connected in Europe. London is the best connected city in the World. This strong position is the result of the UK's consistent policies of liberalisation and competition in the aviation field. These policies have not only delivered the connectivity which gives the UK a leading position as an aviation hub, but have also ensured that the UK airlines and airports respond fully and cost effectively to market demand. It is no coincidence that Europe's two largest low cost carriers have emerged from beginnings centered mainly in the UK aviation market.

A continuation of the UK's policies of liberalisation and competition is likely to be the best means of ensuring that its aviation industry continues to deliver the most flexible and cost-effective responses to future market demands. This process of competition should be accelerated now that the main London airports are in separate ownership.

London Gatwick agrees that the Commission has identified many of the principal trends in aviation. However, we have concerns about the analysis of airline consolidation in Chapter 2. Our view is that, in the case of the UK at least, airline consolidation has been more the result of the emergence and growth of the low cost carriers than the outcome (as the Commission's paper seems to suggest) of the consolidation and strengthening of airline alliances.

The three possible futures identified by the Commission are helpful for thinking about the evolution of the industry. Our response expresses doubts about the validity of Future 1, as the Commission describes it, and it seems clear that these futures are not mutually exclusive, and that a continuation of all three is more likely than any one of these futures.

However, it must also be recognised that the aviation industry is constantly in flux and nobody can predict with confidence exactly how it will evolve in the future. We believe, therefore, that the most important consideration in thinking about futures is to recognise the uncertainties, and to choose an airport infrastructure solution which is robust and flexible to a range of future outcomes and changes both in the industry and in aviation demand. This robustness and flexibility will come not only from an increase in capacity but also from fostering competition between airports.

The Commission's analysis in Chapter 3 of the advantages, disadvantages and trade offs as between the hub-and-spoke and dispersed models of airports capacity

provision is a potentially important contribution to the debate. Gatwick considers that in the end, and broadly in line with the Commission's analysis, the advantages (if any) of the concentrated / hub operating model in terms of connectivity need to be weighed against the disadvantages and costs of that model, and against the advantages of the dispersed model in terms of competition, resilience and flexibility. It is Gatwick's view that an analysis along these lines will show that our proposal for a constellation of three major London Airports each with two runways will be the best solution for the UK and London.

Responses to the Commission's Questions

In this part of this paper we turn to the questions put by the Commission in paragraph 5.3 of its discussion paper 04.

1 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?

1.1 We do not believe that the analysis in this Commission paper could reasonably be used to support the case for increasing either hub or non-hub capacity. This is because - answering the second question first, and assuming that the case for increasing capacity had already been established - a range of further information would need to be considered fully before firm support could be given by the Commission to the case for expansion of hub or non-hub capacity. This additional information would include:

- The nature, timing and location of the incremental traffic which the additional airport capacity is likely to have to handle;
- The additional connectivity which each capacity option might provide;
- How the desired additional capacity for the future can best be developed given the capability and shape of the existing airport system;
- The Commission's views on the level of resilience which the airport system should have in future, and on the level of capacity utilisation which should be planned for; and
- The Commission's views on the aviation Futures set out here and on the desirability of planning for a future airport system which is sufficiently robust and flexible to adapt to future change.

1.2 Once the necessary additional information was available and assessed, the Commission would need to complete its evaluation of the advantages and disadvantages of expanding hub or non-hub capacity. As we read this paper, the Commission sees these advantages and disadvantages as follows.

Advantages of the Hub Model

- Potentially some additional connectivity, with related economic and passenger benefits, over and above what a non-hub solution could deliver;
- Attractor for businesses that rely heavily on air transport; and
- Attractive to network airlines - economies of scale, stronger competitive position.

Disadvantages of the Hub Model

- Noise, pollution and surface transport congestion for those who live in close proximity;
- May draw traffic away from regional airports;
- Less equitable distribution of costs and benefits across the country;
- Market power and reduced competition can lead to higher charges and fares, less innovation to meet passengers' demands, and less passenger choice; and
- Less scope and flexibility to respond to future changes in passenger demand.

To this list of Hub Model disadvantages, we would suggest is added

- Less resilience, due to having "more eggs in one basket";
- Concentration of environmental impacts;
- Less ability to accommodate the fastest growing segment of the market, namely LCCs;
- The impact on passengers of a high cost expanded hub compared with a lower cost non-hub development; and
- Less satisfactory passenger experience, due to less convenient door-to-door journeys and the inconveniences of travelling through a mega-hub.

The Commission will need to complete its evaluation of each of these factors, as well as its evaluation of the deliverability and economic viability of different options for expansion. At this early stage, we would add only that expansion of a Hub airport is likely to require higher investment and be more challenging as a project than expansion at a non-hub location. This applies even more so to any project for a brand new mega-hub.

From all of the above, it seems clear that much depends on how great are the benefits which the Hub model may be able to deliver from the additional connectivity it can generate, and how those benefits (if any) compare with the costs and disadvantages of this model. Gatwick's view is that the Hub model will not deliver additional connectivity sufficient to outweigh the additional costs and disadvantages which the Hub model entails and that the balance of advantage will lie with a dispersed model – with Gatwick and Stansted each having eventually two runways, and being able to compete with Heathrow..

2 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?

- 2.1 It is London Gatwick's view that while the three Futures described in the Discussion Paper may be useful for describing trends that can be identified within the aviation industry today, none of them can or should be taken by the Commission to represent a most likely outcome. The aviation industry is constantly in a state of flux. This is illustrated by the very significant changes that have emerged over the last fifty years. Indeed, such dramatic changes are not peculiar to aviation and similar unforeseen changes have impacted on the computing industry, the energy industry and the car industry. Focusing on one particular scenario would put the Commission in the impossible position of selecting a single view of the future. Not only is it impossible to select one future with confidence, this approach is only slightly better than some pro-Hub

expansion arguments which assume that the airline business models we see today will still apply in 2030 or even 2050 - in other words, that the UK aviation market will be the same but bigger.

2.2 We do not believe that the airline consolidation picture that is presented in **Future 1** reflects appropriately the trends that are at work in the UK. It runs the risk of giving the impression that airline consolidation has principally been associated with full service network carriers merging or entering into alliances, and with the strengthening of these alliances. This is definitely not the case in the UK. In Appendix 1, Gatwick sets out an analysis of how airline consolidation in the UK has evolved. This shows that:

- New business models, especially Low Cost Carriers (LCCs), have accounted for the majority of airline consolidation in the UK through organic growth and mergers. This is in contrast to the impression that might be taken from Figure 2.1 of the Discussion Paper, and from the related text, that full service carriers and their alliances are increasingly strengthening their positions. This is certainly not the case in the UK. Whereas in 1990 full service carriers accounted for over 70% of the seats flown in the UK, by 2012 their share had fallen dramatically to below 40% with the change largely accounted for by new airline business models
- In 1990 the top 20 carriers in the UK accounted for some 75% of RPK's¹, compared to some 58% for the top 20 airlines globally. This shows that larger UK carriers started from a higher base compared to the situation globally
- By 2012, the share of the top 20 carriers in the UK has grown by some 6 percentage points to around 81% of total RPK's. Over this same period of time (according to Figure 2.1 of the Discussion Paper) the share of the top 20 airlines globally had grown by some 14% from to about 72% in 2012). In other words, the gap has narrowed but the important point in Gatwick's view is that the shift towards LCC's and new airline business models in the UK accounted for the majority of RPK's in 2012 from a very low base in 1990.
- Airline consolidation in the regions of the UK is now at as high a level as in the South East;

In Appendix 2, we comment on sections 2.4 – 2.9 of the Commission's paper and suggest that these sections should be reviewed further by the Commission.

2.3 London Gatwick agrees that **Future 2** is plausible for a number of reasons. As the world economy's centre of gravity shifts eastwards, major airlines (Emirates, Air China, Etihad, Turkish Airlines and others) are increasingly building up point-to-point and hub traffic. Huge investment in new hub airport capacity is taking place in Turkey, the Middle East and South East Asia. In recognition of this, some airlines are switching alliances, and the recent switch of the Qantas code share to Emirates is a good example of this. Likewise, Virgin has a code share arrangement with Etihad showing that some carriers choose to benefit from the new connectivity offered by Middle Eastern carriers. This is likely to result in a greater shift of transfer activity towards the Middle East and away from Europe. In addition, LCCs are increasingly entering into interline and code share agreements with long-haul

¹ Revenue Passenger Kilometres, a way of comparing overall distance flown by an airline

network carriers. Jetstar in Australia has entered into a code share agreement with its parent company, Qantas, and also with JAL and American Airlines. Similar trends also exist in other markets and this is becoming an increasingly important area of growth in the aviation market. For example, JetBlue has entered into agreements with 24 carriers including Emirates, Air China, Lufthansa and Turkish Airlines. Beyond these changes in commercial arrangements between airlines, aircraft technology is also changing in a way that is likely to see the economics of long-haul point-to-point services becoming even more competitive than today. The introduction of the Airbus A350 and the Boeing B787 are clear examples of how passengers will be increasingly able to by-pass existing hubs.

- 2.4 The Discussion Paper's description of **Future 3** should, in Gatwick's view, be broadened to reflect the continued evolution of low cost business models. It is increasingly difficult in some instances to distinguish between the products offered by low cost and full service carriers as, for example, seat reservation is increasingly becoming commonplace on some low-cost services, while paying for hold baggage is now charged for by some full service carriers. Other features include LCC's issuing cards offering benefits to members, and LCC's seeking corporate clients by offering of flexible business fares. Gatwick also supports the view that there is evidence of greater integration of low cost and full service models. Beyond the JetBlue and Jetstar examples mentioned above, we see evidence of this in Canada where WestJet has code share agreements with eight airlines including BA, Air France, China Eastern, Korean, Delta and American and interline agreements with a further 25 carriers. The UK has been a leader in airline liberalisation in Europe and is host to the main bases of two of Europe's largest carriers, easyJet and Ryanair. Both of these carriers have innovated and been in the vanguard of a transformation of the UK and European aviation market, and they are continuing to innovate. It is simply not credible in Gatwick's view to suggest that these models will not change and expand further.
- 2.5 Gatwick believes that other trends which cannot be foreseen today are likely to emerge adding to the present uncertainties, and that the past is most unlikely to be a completely accurate predictor of the future.
- 2.6 Consequently, Gatwick believes there are dangers in attempting to draw conclusions based on any one of these Futures, and that the most likely outcome is a blend of all three (plus other changes that are as yet unknown).
- 2.7 In Gatwick's view, the most important conclusion to draw (which appears to be supported by the Commission) is that the future shape of the industry is very uncertain. In Chapter 2 of the Discussion Paper the Airports Commission asks when the sector will reach a state of equilibrium – but the reality is that a state of equilibrium is unlikely to be reached within the foreseeable future. Aviation is a dynamic, innovative sector whose history shows it has constantly evolved. This is likely to be the pattern of development for the future, and such a state of flux is not unique to aviation. Consequently, the UK's airport system needs to be robust and sufficiently flexible to adapt to future changes in the industry and in aviation demand. Such robustness will come about not just from increased capacity but also from fostering competition. Competition dynamics will lead to competitive pricing, spur innovation and ensure that London's airports can respond to changing market conditions, maximising benefits for consumers and wider society.

3 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?

- 3.1 It is impossible to predict with certainty how these trends are likely to evolve. The pace of change is also difficult to judge, as is the extent to which each of these factors might influence the shape the industry. This underscores the need for a policy that is flexible and can accommodate change. Our comments on the trends identified by the Commission are as follows:

Liberalisation and Airline Consolidation

- 3.2 In the context of the uncertainty described above, Gatwick's view is that the general trend towards liberalisation seems likely to continue, although there will remain some important barriers (for example, national ownership and control of airlines) where it is not easy to see when or how these obstacles might be removed.
- 3.3 With regard to the issue of airline consolidation, we repeat the concern identified above that the Discussion Paper does not reflect the way in which consolidation has occurred in the UK and, in particular, that it may not adequately reflect the importance and scale of non-hub operations in the UK which account for the majority of air travel. Gatwick sees no reason to believe that the share of the UK market operated by global network carriers is likely to increase, and we have seen no evidence in the Discussion Paper to suggest it might. On the contrary, we see greater scope for LCC's and new airline business models in long-haul, short-haul and transfer markets to expand further from the strong base they have already established in the UK.
- 3.4 Beyond the specific issue of liberalisation and airline consolidation identified by the Commission, there are other factors that, in Gatwick's view, are relevant to how the aviation industry both globally and in the UK may evolve. These include:
- The rise of hubs in the Middle East and the Far East along with the eastwards shift of the global economy which the Discussion Paper highlights;
 - To put this into some context, it has been suggested by some that intra-Asian traffic will be greater than North America and Europe combined within the next 20 years;
 - This in turn is a demonstration of the extent to which the global aviation landscape is expected to change with London and Europe being on balance more of a destination rather than a generator of outbound traffic.

Low Cost Carriers and New Airline Business Models

- 3.5 The original LCC model focused almost entirely on cost reduction in order to implement a price leadership strategy in the markets they served. These low costs are generally achieved by utilising young fleets of standardised aircraft (normally A320 or B737 models) with high density seating, operating to secondary airports in order to reduce airport fees and delays. Services were operated on a point-to-point basis (connecting traffic was not facilitated) and

high aircraft utilisation was achieved by having short aircraft turnarounds at airports and by operating short and medium haul routes.

- 3.6 Some LCCs still adhere to this model, such as Ryanair in Europe and Spirit and Allegiant Air in the United States. These types of carrier have sometimes been characterised as ultra-low cost carriers due to very low unit costs and simplicity of operation.
- 3.7 Other LCCs have diverged from this model significantly. Some are making major changes in their business models to increase the percentage of traffic traveling on premium fares, specifically targeting the business market. Recognising that these features will add complexity and, in turn, costs, their aim is that the additional costs of complexity will be lower than the additional benefits of higher yield derived from the transportation of higher percentage of premium traffic. Examples of carriers in this category include Southwest and JetBlue in the US, Virgin Australia and easyJet in Europe.
- 3.8 Looking to the future, we have described above how some LCCs are entering the long-haul market directly while others are growing their business by entering into code sharing and Interline agreements with long-haul carriers.
- 3.9 It is very likely that the LCC business model that will continue to evolve. LCCs in the UK and Europe have achieved impressive growth over the last decade but the opportunities for growth in the short haul market are no longer so great and the traditional market is fairly mature. Already, easyJet is operating into the medium haul market outside Europe, such as Moscow and Sharm El Sheikh. It is increasingly likely that European LCCs will seek out opportunities outside Europe, especially as the EU reaches more open skies agreements with outside countries. Eventually, this may require these airlines to invest in long haul aircraft or, alternatively, new long haul LCCs may be set up.

Norwegian Air Shuttle is already embarking on long haul services using B787s. It is conceivable that such services will be operating from UK Airports by 2030; this could occur in a number of ways, for example:

- Norwegian could be operating some of its B787s from Gatwick to North America and Asia (it already has a base at Gatwick);
 - An existing LCC could purchase B787 or A350 aircraft and operate service to North America, the Caribbean, Africa or Asia, although we should make it clear that no UK based LCC has yet indicated an interest in long haul operations; and / or
 - A new LCC could be established based around a long haul business model;
- 3.10 Equally, by 2030, LCCs in the UK may have established code sharing or similar partnerships with long haul carriers, similar to those established in Asia and North America. While currently no UK based LCC has taken this step, the successes achieved elsewhere may persuade some LCC to exploit this opportunity. This new model of connecting traffic is unlikely to emerge at Heathrow, even with runway expansion. The higher costs, operational restrictions and the dominance by major carriers are likely to make Heathrow

unattractive to most low cost carriers. Therefore, the emerging model will most likely be facilitated by expansion at other airports.

- 3.11 Consider that the idea of LCCs taking part in codeshare agreements would have seemed far fetched 10 years ago. Consider also the alternative if UK LCCs do not pursue these types of strategy. These LCCs will be restricted to seeking out growth in the point-to-point markets largely within Europe (plus some parts of Central Asia and North Africa). As time goes on, these markets will be more and more mature, and their ability to stimulate new demand will become much more limited. Facing stagnation, the LCCs will be able to achieve growth only by taking market share from other carriers, weakening profitability.

Technology

- 3.12 In Gatwick's view, new aircraft technology will be beneficial for the industry for a whole by reducing noise and operating costs. It will be particularly beneficial in supporting more direct long-haul services, increasingly by-passing hub airports. As the above analysis shows, non-hub to non-hub passenger volumes in the UK already significantly exceed volumes involving hubs at one or both ends of the route. Passengers generally have a desire to travel directly where they can, and we see greater opportunity for this to happen as new technology aircraft come on stream. Several airlines currently operating from Gatwick have new technology aircraft on order.
- 3.13 New technology aircraft will also support greater efficiency at lower environmental cost. We will explain in our Outline Proposals submission later in July why we see Gatwick being well placed to accommodate greater

Is the Case for Hub or Non-hub Capacity Strengthened or Weakened by this Analysis?

- 3.14 Gatwick's view is that the analysis in Chapter 2 of the Commission's paper, and our analysis above, weaken the case for developing UK hub capacity, as opposed to non-hub e.g.;

Liberalisation and Airline Consolidation

- Liberalisation brings competition and change, which argue against greatly expanding a single hub or mega-hub, and for a dispersed and more flexible airport system;
- We do not agree with the Commission's analysis which suggested that a key trend is airline consolidation, strengthening of alliances, and enhancement of the dominant roles of focal airports; our analysis of the trends suggests, for the UK at least, a strengthening of the roles of the low cost carriers and of the dispersed airport system they tend to use, with the low cost carriers developing new business models which will reduce the importance of the traditional hubs;
- The eastwards shift of the global economy and the rise of new hubs in the Middle East and Far East will also reduce the importance of European, and especially UK, hubs.

Technology

- An inevitable result of the introduction of the new technology aircraft, such

as the B787 and A350, will be many more direct long-haul routes which by-pass hub airports as low cost carriers begin to acquire these aircraft types.

Overall, those trends do not favour the expansion of UK hub capacity and, taken together with the disadvantages of the hub model as outlined in Answer 1, we consider that the case for hub expansion in the UK is weak.

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

- 4.1 For the majority of passengers using Heathrow, the absence of a wave system should have little or no impact. This is because two-thirds of passengers are travelling point-to-point even though there may be transfer passengers on the same flight.

The great majority of transfer passengers at Heathrow (76%, allowing for bmi's absorption into oneworld) are transferring within the oneworld alliance. A further 4% transfer within the STAR alliance and 1% within the SkyTeam alliance. A further 13% are transferring between alliances or are connecting from non-aligned carriers. Only 6% are transferring from a non-aligned carrier to a non-aligned carrier. This picture is not surprising as STAR and SkyTeam have a strong incentive to encourage passengers to connect through Frankfurt and Paris, and this is unlikely to change even with another runway at Heathrow. So the absence of a wave system appears to be most relevant to the oneworld alliance.

The absence of a wave system is unlikely to have influenced the travel choice of many transfer passengers, as the oneworld alliance will have detailed knowledge of transfer passenger flows and will presumably make every effort possible to ease the transfer journey through scheduling, gate allocation and other measures.

For the remainder of oneworld transfer passengers, the absence of a wave system may be unhelpful but by definition has been insufficient to cause them to choose another route. The issue would therefore appear to relate more to how many more transfer passengers could be attracted if a wave system were introduced? Any analysis of this must be complicated by how other factors which influence passenger choice e.g. price (and the related exchange rate), membership of frequent flyer programs and other transfer opportunities that are open to them.

- 4.2 In our view, a factor which has greater impact on airlines and passengers than the absence of a wave system is the fact that Heathrow is operating very close to its capacity limit, where Heathrow quotes a figure of 98%. Reliability of operation is a factor that can be expected to influence passenger choice. Unless reliability is attained, it seems likely that Heathrow will continue to experience periodic severe disruption and this will, in turn, continue to make it less attractive as a hub along with a series of other environmental, geographical and physical limitations.
- 4.3 As we look to the future it is not clear whether a third runway at Heathrow

would enable the development of a wave system. Much will depend on how many additional slots are ascribed to the oneworld alliance but doubts must remain as to whether a wave system could be introduced even if Heathrow had a third runway. If, despite these doubts, a wave system can be established, how much additional transfer traffic would be attracted is by no means easy to assess and will depend on a number of factors including the extent to which oneworld can be accommodated in a single terminal building.

5 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?

5.1 Aside from the specific operational issues relating directly to the size and scale of focal airports, it is important firstly to note that a number of other factors can limit the scale of a focal airport. These include:

- The level of demand for O&D and transfer traffic;
- The need for resilience;
- The desire to promote competition for the benefit of users;
- Environmental considerations; and
- Surface access considerations

5.2 Beyond these factors, increased size and scale will affect the operation of focal airports in a number of ways. A larger airport requires greater scheduled co-ordination so as to optimise transfer passenger flows in a changing market. This in turn can have a knock on effect on airport facilities as airlines, for understandable commercial reasons, are constantly looking to maximise commercial advantage. Airlines that are in an alliance understandably wish to be co-located in the same terminal in order to ease convenience for passengers. Special facilities are required to enable the transfer of these passengers (e.g. transfer desk areas, security clearance, inter-terminal transit systems) and baggage (e.g. transfer baggage systems). Other facilities are generally needed to facilitate the clearance of transfer passengers who are connecting onto a UK domestic service through Immigration, customs and security. As a general rule, scale and size increases the complexities and cost of doing these things. The extent of such facilities is reduced where transfers are predominantly within the same terminal but they are still significant and, as described above, subject to market changes.

An extreme example may be where facilities are required to enable transfers from every gate to every other gate of a multi-terminal airport of some scale. The purpose here is to have infinite flexibility but this comes at a considerable cost. The complexities of doing so become acute, and potentially undeliverable at a cost users are willing to pay. Equally, adapting bespoke facilities for a changing market also presents some significant challenges. For example, transfers between terminals take longer as a general rule making them less attractive compared to other transfer options.

5.3 Beyond these considerations, there are, in Gatwick's view, other limitations to the viable scale of a focal airport. For example, if the airport becomes so large that taxiing distances become very long, the operation of the airfield becomes inefficient and the consequences of the operation breaking down

can become severe. There is some evidence emerging from very large US airports such as Atlanta of this effect beginning to be experienced. Of course this does not just apply to ultra-large airports. It is possible to have a more modestly sized airport that was never designed with transfer passengers in mind and which has been developed in a manner that imposes long taxiing distances and conflict points on the airfield, with the result that such inefficiency can be experienced at a lesser scale of operation.

6 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.

- 6.1 In London Gatwick's view, the primary need is for more runway and associated terminal and surface access capacity to be provided. This of course needs to be at a location that will be convenient for the market and will thus serve it well.
- 6.2 Although the question says "wherever located", it is Gatwick's view that additional runway capacity is needed primarily to serve London and South East of England should therefore be provided in the South East, with good access to the London and South East market.
- 6.3 At a conceptual level, it is difficult to comment on how hub and non-hub solutions compare, as many of the issues are site specific. For example, the economic and environmental consequences of a new mega-hub in the estuary will be very different from an expanded Heathrow. Nevertheless, there are some general points that can be made as follows:
- Investing in a single mega-hub will diminish competition, lead to higher airport charges and air fares, and entrench airport market power;
 - The costs of delivering a mega-hub are likely to be significantly greater than for a distributed solution and for some mega-hub locations these costs could be extremely large, making airport charges uncompetitive;
 - Expanding to create a mega-hub will create a less resilient system than a distributed solution, and this too adds costs for many users;
 - Any site that has been identified so far for a mega-hub is likely to have a major environmental impact, and a mega-hub inevitably leads to concentration of such impacts; and
 - There are significant social benefits and dis-benefits, depending on the location, and it is hard at a conceptual level to comment further.
- 6.4 If demand is predominantly related to O&D traffic, then there is little reason to believe that a hub would provide materially different connectivity compared to a non-hub, especially where the majority of that demand is on short-haul European and domestic services as is the case in the UK.
- 6.5 In theory, it is understandable to assert that a hub may deliver slightly greater connectivity compared to a distributed solution, but the Commission would have to satisfy itself that those marginal benefits are likely to exist in practice and that they outweigh the disadvantages of a hub as described in response

to question 1.

6.6 Accordingly we would urge the Commission to:

- Interpret its comments in paragraph 3.21 (seeking to maximise the benefits while minimising costs) by choosing the option that provides the best overall balance between benefits and costs (this suggested approach is conventionally accepted);
- Accept that the competition benefits of Gatwick's proposals are a material consideration, as is market power which cannot be curbed sufficiently by price regulation;
- Confirm its view (paragraph 3.26) that a distributed network possesses flexibility advantages in policy terms;
- Accept that competition with European Hubs is not greatly undermined by a distributed solution, and not greatly enhanced by a Heathrow solution to the extent that it outweighs all other considerations;
- Accept that New York, Washington, Beijing and Shanghai are good comparators for London, that they work well with a distributed network, and that it is notable that none of them are going down the mega-hub route;
- Accept that solutions which distribute benefits and help rebalance the economy are on balance preferable and more sustainable than one which seeks solely to maximise economic benefits; and
- Accept that the connectivity (and therefore economic benefits) associated with Gatwick's proposal are close enough to Heathrow to outweigh the much greater adverse effects of Heathrow.

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

7.1 Gatwick does not accept the implied premise of the question i.e. that airports can, or should be, divided into two completely different categories (focal and non-focal) in a meaningful way. For example, with around two-thirds of Heathrow's traffic travelling point-to-point it would be plausible to describe it as a non-focal airport (though Gatwick does not seek to describe it in that way). The differences within each category are very significant e.g. (within the focal category) the connectivity brought by Heathrow is quite different from that afforded by Dubai and (within the non-focal category) Manchester generates a very different kind of connectivity from that afforded by Inverness. The reason, of course, is that the market demand, and the strategies of airlines which want to access that demand, are very different.

Accordingly, rather than trying to assess in the abstract which category of airport brings which kind of connectivity, we consider that it is much more useful to focus on market demand. It is the nature and scale of demand, together with airline strategies to meet that demand, which will primarily determine the connectivity which an airport provides. The more important question for the Commission, therefore, is what type of airport system will best cater for future demand in and through the UK.

7.2 In addition, it is also important to remember that we do not start from a clean sheet and there is a legacy of past airport and airline investment decisions

which have determined to a significant extent the shape of the aviation industry in the London area as we know it today. This too should influence our perspective on the type of connectivity that focal and non-focal airports can provide.

7.3 As we look to the future and consider the question of which users benefit the most, Gatwick urges the Commission to give priority to the following:

- The future pattern and composition of demand for air travel and the extent to which focal and non-focal demand exists;
- The extent to which LCCs and new airline business models are changing the way in which users gain access to air transport;
- Changing trends in hubbing in Europe and abroad; and
- The need to put passengers' interests at the heart of this issue and the extent to which competition, innovation, air fares and ease of access to airports should drive policy.

In our Outline Proposals submission, London Gatwick will outline how our proposals can meet these considerations.

8 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?

8.1 The competitive effects of a major expansion of hub capacity can be considered on a number of different levels in Gatwick's view.

- At the level of the level of the UK economy, there may be some competitive benefits associated with additional connectivity (if any) that can be associated with a major expansion of hub capacity. These could be in the form of increased trade, inbound tourism and inward investment. There may also be benefits to certain carriers so long as capacity can be provided at a cost users will pay.
- Gatwick does not accept, however, that these benefits are universal to all major hub expansion options and considers that the costs of developing a completely new hub are likely to prove to be excessively high, and that the dislocation caused to airlines of transferring to a new location would be very considerable, as would the cost to the public purse.
- There are also dis-benefits of concentrating capacity provision in this way as there would be reduced airport and airline competition and the dominant position of a much larger hub would negate many of the benefits that competition can bring. We identify these dis-benefits of a mega-hub solution elsewhere in this submission.
- There is also a significant risk of over-heating the local and regional economy around Heathrow and causing further congestion and pollution.
- Finally, in our answer to question 1 we have identified risks associated with such a policy and we ask the Commission to take account of those risks in relation to this question.

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

- 9.1 Transfer passengers benefit the economy by supporting the commercial viability of some services and supporting the frequency of other services, thus enhancing connectivity.

Connectivity supports:

- Trade in goods and services;
- Tourism;
- Business investment and innovation;
- Long term productivity growth;

- 9.2 In Gatwick's view, it is important for the Commission to consider what is the extent of incremental transfer passenger growth in the future, and what is the most effective way of meeting that demand.

Given the shift of the global economy to the Far East and the BRIC countries coupled with the rise of Middle and Far East hubs, and the relatively poor geographical location of London to act as a hub for this traffic, Gatwick does not envisage transfer passengers growing as a proportion of total demand and if anything expect this to fall slightly. Whatever its value to the economy, we do not envisage that there is significant scope for transfer passengers to grow as a proportion of total demand.

- 9.3 In Gatwick's July 2013 Outline Proposals submission to the Commission, we will provide evidence to show that a second runway at Gatwick can help the UK accommodate similar number of transfer passengers as can a third runway at Heathrow, and can hence provide a similar economic benefit to the UK.

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

- 10.1 Use of overseas focal airports by passengers travelling to/from the UK is disadvantageous to UK focal airports and airlines, but Gatwick has no evidence that individual countries or regions of the UK are disadvantaged by using overseas focal airports.

Gatwick would view the availability of access via overseas focal airports as a benefit to the passengers as it provides a travel opportunity that is the best available. Nevertheless, Gatwick does recognise that there are many in the regions of the UK who also value access to London as a destination, as well as a means of access to London's network of air services for onward travel.

In Gatwick's view, it is very important that the Commission considers how access to London might be protected and enhanced as part of its recommendations to the Government. Here, Gatwick believes that serious

consideration should be given to identifying specific measures that could be introduced, for example local rules (possibly through the slot allocation process) that give greater priority to regional services.

- 10.3 In addition, Gatwick is already introducing the Gatwick Connect product which is designed to ease the flow of transfer passengers and it is Gatwick's belief that this can be developed in a way that will ease the connection for those transferring onto UK domestic services.
- 10.4 It is equally important, in Gatwick's view, for regions or individual countries within the UK to continue to develop their own networks of direct air services. Regional airports in the UK have been very successful in recent years in developing direct services and this should be encouraged as part of an overall policy for the UK. It is our view that expanding Gatwick is more likely to allow regional airports to grow than would expansion of Heathrow or creation of a mega-hub.
- 10.5 In the final analysis, providing more runway capacity in the South East must support the likelihood of maintaining and / or enhancing regional access to and through London.

11 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?

- 11.1 The UK's population and economy is to a significant extent centred on London and the South East of England. Not only is London the political, banking and commercial centre of the country, it is also (unlike some other countries) by far the largest population centre. These are some of the reasons for London's strength in global aviation, and it is the largest market in the world currently in terms of the number of air passengers. These characteristics underscore why access to London needs special attention.

Cities closer to London such as Birmingham enjoy frequent rail access and indeed rail access to London is, in general, better for journeys up to around 400 miles. However, as a general rule, the further away from London the greater the need for air access. For Northern Ireland, there is a particular need for air access due to its separation by the Irish Sea.

- 11.2 In Gatwick's view, a mega-hub in the London area would be unhelpful to users in two ways:
 - Firstly, it would inhibit growth in direct regional air services by seeking to attract transfer passengers, thus weakening the market for direct services. Although hub airports can be beneficial to regional passengers by providing travel opportunities that would otherwise not exist or be more difficult, if the hub becomes too strong it can undermine the case for direct regional air service. Experience has also shown that when capacity constraints are experienced at hub airports, it is the thinner regional routes that tend to be cut.

- Secondly, a mega-hub airport would serve the local London market less well by making access to air services less convenient for passengers as well as concentrating environmental costs and concentrating market power. As the largest market for air travel in the world, London is well placed to continue to develop its constellation of airports - which is the approach that is being taken in other global cities such as New York, Washington, Shanghai, Tokyo and Beijing.

12 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?

12.1 London Gatwick considers that the UK could support more than one focal airport but not, in our view, in Manchester or Birmingham, as there is not a sufficiently large traffic base in their catchment areas to support a focal airport.

12.2 In order to answer the question in relation to London, the Commission would need to clarify the point at which an airport could be defined as focal.

It is Gatwick's view, however, that London and the South East of England does have the potential to support two large, two-runway airports and, in due course, three. We have described elsewhere how London is the largest market for air travel in the world and that there are many cities which have, or are planning to have, multi-airport systems and we give examples of them. We also draw the Commission's attention to the benefits of a constellation of airports.

In its outline proposals submission, Gatwick will set out further evidence on how it envisages traffic growing and how Gatwick Airport can ensure that growth is accommodated. Gatwick's analysis will show that Gatwick can meet the future air travel needs of London and the South East by providing excellent connectivity, whether or not an airline alliance transfers from Heathrow to Gatwick.

13 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?

13.1 In Gatwick’s view, it might be possible to operate a focal airport in this way provided:

- It does not destroy airline or airport economics; and
- There was clear Government policy, and a legal framework, in place to support this objective.

We consider that this is an important issue for the Commission to consider even though it would be a major change in aviation policy, and past precedents are not encouraging.

14 Para. 4.35: The Airports Commission is interested in any evidence of whether the fact that UK passengers and potential interlining passengers from abroad are using foreign airports for connecting to destinations of their choosing provides significant costs to these passengers or to the UK economy as a whole.

14.1 Gatwick has no evidence to submit in relation to this issue, and we would draw the Commission’s attention to the answer given to question 10 above.

15 Para 4.41: The Commission would welcome submissions covering the potential impacts of capacity constraints at UK airports on the international transfer market. This might include consideration of whether this analysis accurately reflects likely future patterns of demand, how the modelling could be supplemented or enhanced, and what additional evidence might be taken into consideration, either supporting or challenging the analysis.

15.1 The international transfer market is large, but considerably less significant than the direct travel market (i.e. those passengers who fly directly from origin to destination without making a transfer). ICF SH&E estimate that of all European journeys, 85% fly non-stop, with the rest transferring either in Europe or elsewhere. (For long-haul, the figure is about 60% direct, short haul 90%).

15.2 Capacity constraints at UK airports will have a negative impact on both transfer and O&D traffic, but arguably more on transfer traffic as transfer flows have many more options. A passenger who finds it unattractive (for price, schedule or other reasons) to connect via London can relatively easily connect via another hub. A passenger who lives in London or needs to visit London will be less likely to switch. It is the large size of the demand pool in this segment

which is 'attached' to London which makes the London market so attractive to both UK and overseas airlines.

15.3 Even without capacity constraints, we anticipate the share of transfer passengers who would wish to use London to connect to decline slightly relative to O&D traffic for two main reasons.

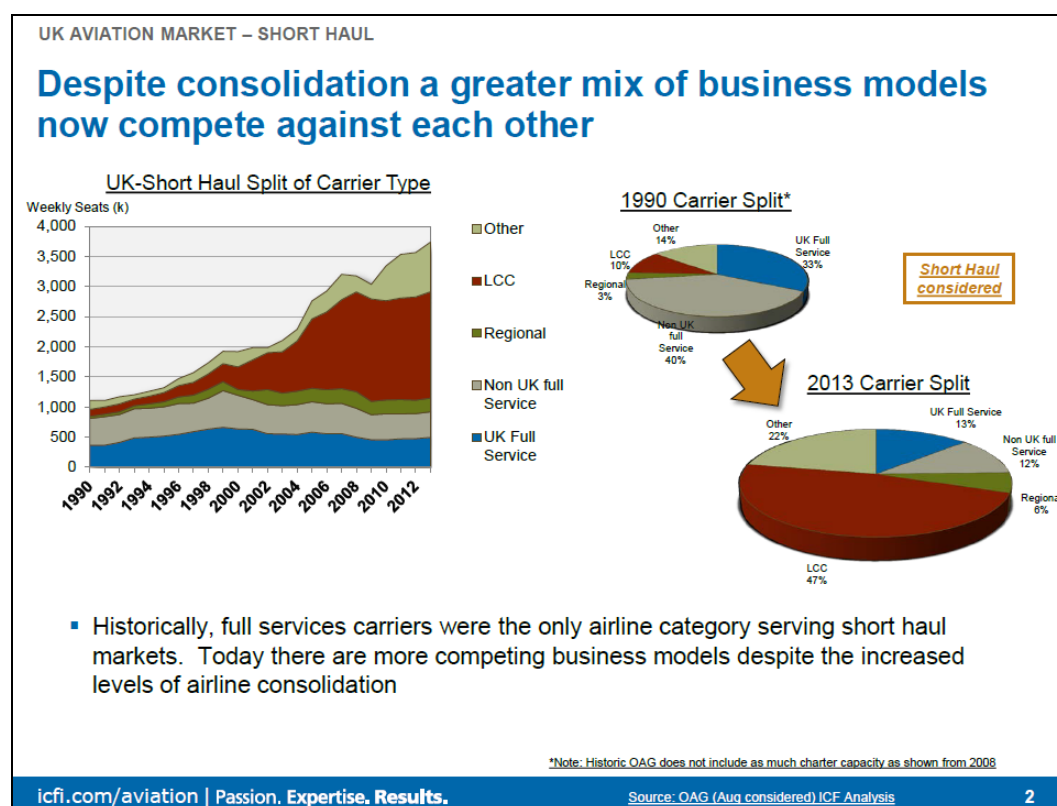
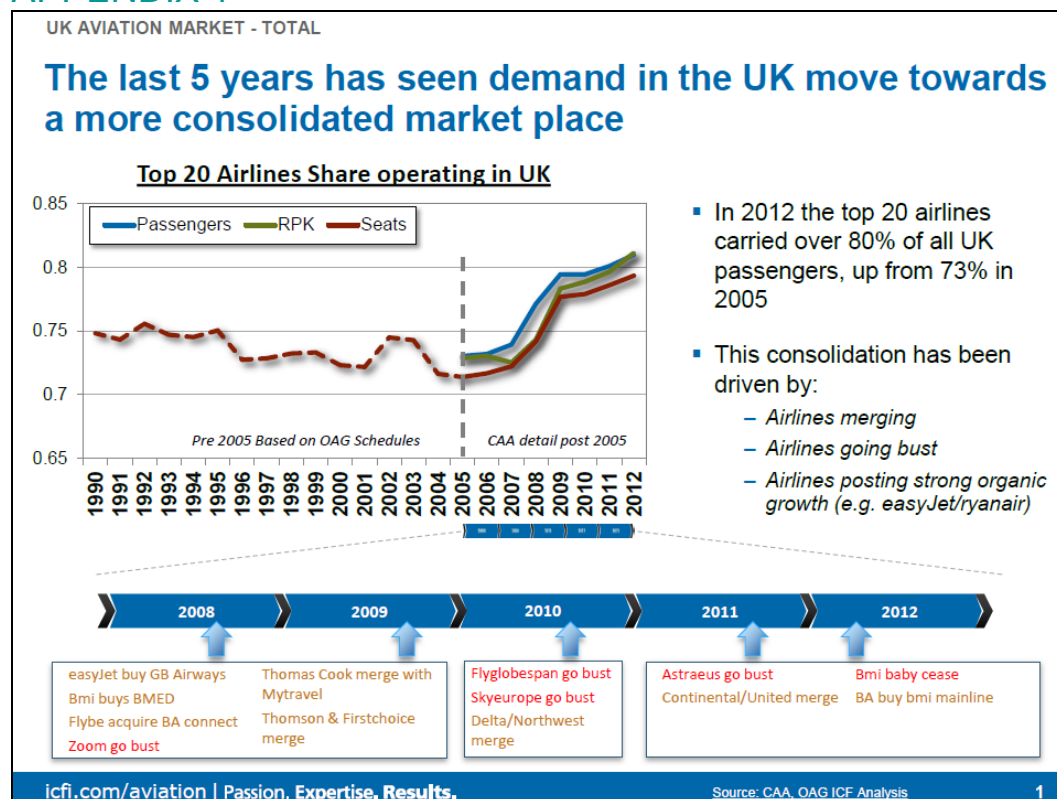
- Markets overall will continue to grow. As markets grow, they increasingly generate sufficient demand to support direct services. Since direct services are preferred by passengers and often by airlines (as yields are generally higher on non-stop than on connecting services), a direct service conventionally starts when enough demand exists between two cities. This cycle is entirely normal and is repeated time and again as an airport develops its route network.
- The introduction of smaller long-haul aircraft, such as the B787 and in time the A350, will make thinner long-haul routes economically viable and will reduce the demand for transfers on these routes.

15.4 It is not clear from the Commission's description of its DfT modeling that the constrained and unconstrained numbers are being used to draw the right conclusions or ask the right question. Our understanding is that the DfT's demand forecasts do not consider the complete pool of demand which uses London to connect today. We believe the correct approach is to consider all of the demand between for example North America and India (to use the New York – Bangalore example in 4.39), consider how much that total pool will grow over time, how much of that pool will fly direct over time, which hubs people will naturally connect over time, and then model the impact of capacity on the remaining demand. London's share of transfers has declined over time for most market which it serves. However, so has Frankfurt's and Amsterdam's, which are not capacity constrained. This is because more people fly direct and more people are now flying via cheaper and more convenient hubs, such as those in the Gulf.

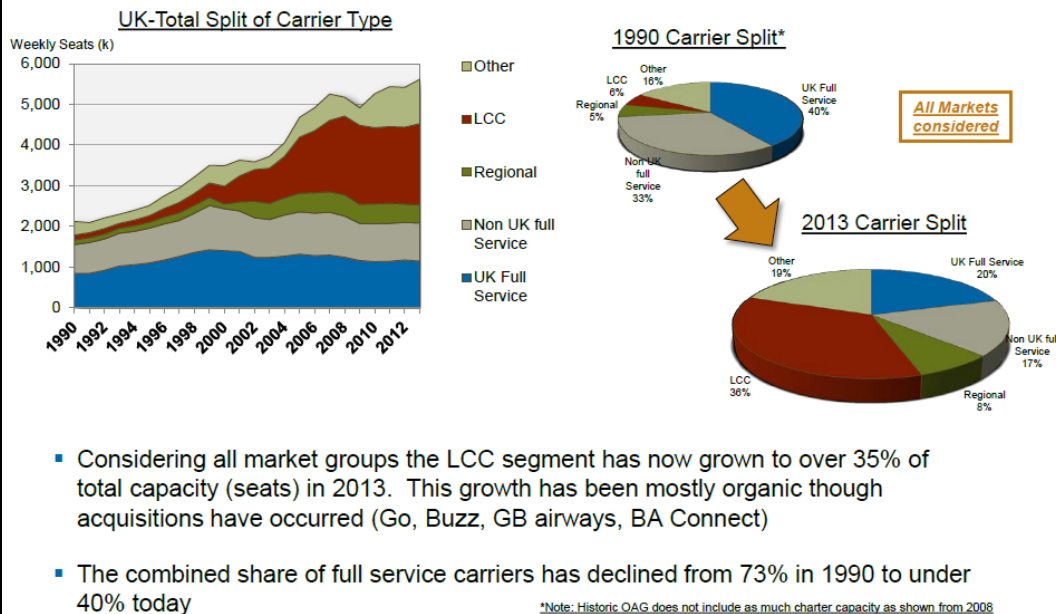
Lastly, even using the estimated figures provided in 4.39, a total of 3 million passengers 'lost' to the UK airport system (which the DfT forecasts to be 480 million by 2050) is just 0.6% of demand – hardly a strong basis for policy decision.

Gatwick Airport Ltd
11th July 2013

APPENDIX 1

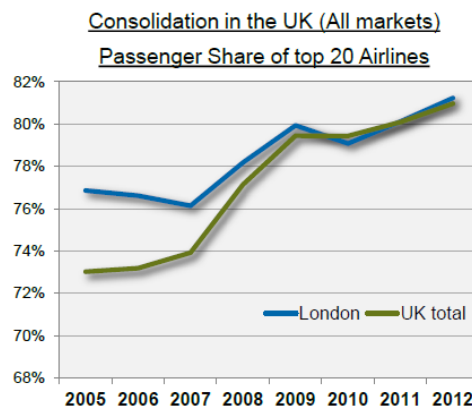


Across all markets full service carriers account for nearly 40% of all seat capacity in the UK



Consolidation has occurred most rapidly outside the London Market

- The UK & London markets now have a comparable level of consolidation, the top 20 Airlines carry over 80% of total passengers
- Historically, the level of consolidation in the UK regions was lower than London but it has now merged



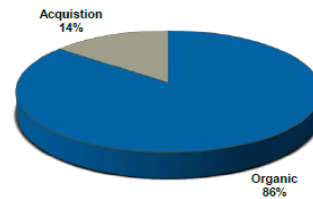
Many examples of airlines ceasing UK operations exist whilst growth from the new business models has been largely organic

Selected Exits from UK Market since 2005

Bmibaby Ltd	Oasis Hong Kong Airlines Ltd
XL Airways UK Ltd	Flightline Ltd
Flyglobespan	Tuifly (Germany)
Astraeus Ltd	Scot Airways
Sterling Airlines	Greece Airways
Sky Europe	Air Comet
Viking Airlines	Air Jamaica
Futura Airlines	Virgin Nigeria Airways
Olympic Airlines	Augsburg Airways GmbH
Centralwings	Aerolineas Argentinas
Zoom Airlines (Canada)	Niki
Lte International Airways	Lithuanian Airlines
Air Southwest	Maxjet Airways
Eurocypria Airlines Ltd	SkyEurope Airlines Hungary
Clickair	Atlas Blue
Silverjet Air Operations Ltd	Air One
Maersk Air	Air Namibia
European Air Charter	Emerald Airways Limited
Spanair	Mahan Air
Ajet	Eos Airlines
Euromanx GmbH	Cubana
Air Wales Ltd	Landsflug Ehf
Hello	Highland Airways Ltd
Hapag Lloyd Express	British North West Airlines Ltd

- Growth of new business models has been largely organic with just 14% of growth since 2005 coming through acquisitions

Growth by LCCs (2005-2012)



APPENDIX 2

AIRPORT OPERATIONAL MODELS – COMMENTS BY GATWICK AIRPORT LTD ON COMMISSION PAPER

General Comment

Gatwick welcomes the Commission paper and considers that it helps to clarify many of the key issues in the debate about how best to provide UK airport capacity in the future.

Comments on specific sections of the paper

1.1

While the paper is rightly focused on the nature of any additional airport capacity that might potentially be required, it would clearly not be advisable to reach firm conclusions on this without considering carefully the nature, timing and location of the incremental traffic which such capacity is likely to have to deal with.

For example, the answers would clearly be different if the incremental traffic was (a) largely in the North of England, or (b) if it was largely in the South East of the country. Similarly, the answers would be very different if the incremental demand was (c) largely for Short Haul traffic to/from Europe, or (d) principally for Long Haul connections to the BRIC economies.

1.2

The labeling of some airports as “focal” reflects the very important point made by the Commission that in practice a hub is not created by an airport alone but depends significantly on the business models of the airlines who use it. However, whilst that point should indeed be emphasised, we are not convinced that the invention of the “focal” label adds value to the debate – we note that the paper’s later descriptions of focal airports look exactly like descriptions of Hubs, and that the paper often uses these two labels interchangeably.

1.2-1.4

The use of the two “extremes” (a sole focal point for long-haul, and a dispersed system providing point-to-point services) may be of interest for analytical purposes. However, in practice, neither is possible – given that a substantial diverse UK airport network, which is largely dispersed and competitive, is already a fact of life. The question therefore is not which of the two extremes is better, but what is the best way to develop, adapt or add to the airport network we’ve got in order to meet the incremental traffic demand.

1.4

This section lists some of the factors which shape the aviation network in a country or region. The Commission paper does not attempt in this paper a full analysis of such factors as they relate to the UK. However, we consider that such an analysis should be undertaken by the Commission to support the identification of the best UK airport strategies for the future.

2.4-2.9

We consider that these sections should be reviewed further by the Commission. Issues to be considered include

- Whether the global market share for the 20 largest airlines is calculated on the appropriate basis for the Commission’s purposes

(our understanding is that the data presented here is for Revenue Passenger Kilometers (RPKs), which obviously weights the results towards long-haul carriers, whereas the Commission's work focuses on airports - where takeoffs and landings, short or long haul, count the same);

- Whether these findings are unduly influenced by what has happened in the US market, which is obviously of less relevance to the Commission's analysis which is primarily, and naturally, UK-focused;
- How far these findings are directly relevant in Europe, with its lower level of consolidation and, most importantly of all, in the UK where the dominant feature of the past 10-20 years has been the massive advance of the Low Cost Carriers and where the Full Service Carriers have seen their market share halved over the same period.

In particular, we would question the validity of the data presented here as an indicator of what has been happening in the UK, or as a basis for later putting forward Future 1 ("further strengthening of the alliances, with the result that the dominant role of the major focal airports is enhanced") as a possible future scenario in the UK. We believe that the alliances can equally well be seen as a defensive strategy by the major carriers in the face of difficult industry economics and the rapid advance of the Low Cost Carriers. In parallel, the past 10-20 years has seen the market share of the UK's major focal airport eroded relative to non-focal airports, and there is no obvious reason why these trends are likely to change.

2.10 (Box 1)

We note the factors which the Commission identifies as making Heathrow attractive to foreign airlines; the Commission also mentions the new carriers from emerging markets which have recently been attracted to Gatwick, and we would ask the Commission to note that factors attracting such carriers to Gatwick include:

- Strong business cases to commence or grow services to London;
- Good yields for airlines (albeit yields which are not as high as those made possible by Heathrow's dominant position);
- Availability of slots at Gatwick and schedules that can optimise connecting flows at the carriers' home bases;
- A strong catchment area with good surface access to much of London and the South-East;
- A very broad spread of domestic and international routes that long-haul carriers find attractive – an attraction which is being enhanced with new interline capability at Gatwick;
- Our programme of investment in facilities and service quality, which gives airlines confidence in selling the Gatwick product; and
- Competitive airline charges and a pro-active and collaborative approach to working with our airlines.

2.24

We would emphasise the importance of the headline here - **"Airports and airlines are constantly evolving"** and we would recommend that the Commission gives at least as much weight to this as it does to forecasts of Future scenarios; as the Commission's paper says in section 2.45 "it is not clear when the [aviation] sector will reach a state of equilibrium and there are many possible futures....." and, in our view, this underlines the over-riding need for an airport system that is flexible and robust to future change.

2.25

Again, the use of RPK data may overstate the relative importance of air alliances for the Commission's purposes.

2.40

We would ask the Commission to note that Gatwick airport is now introducing a more developed version of the Via Milano-type connection service; we see substantial potential to provide passengers with an enhanced service by connecting our extensive short haul network with our growing range of long haul airlines.

2.46

The analysis of possible Futures is clearly important, and we have the following comments at this stage:

- The scenarios as a whole could be viewed as having been selected on the basis that the only key issue is whether the future will be good or bad for hubs; this ignores other important issues affecting the growth of non-hub airports, not least those in the regions;
- Future 1 : we commented earlier that the data used may overstate the significance of the “strengthening” and “consolidation” referred to here; also the wording here does not allow for the likelihood that, while the alliances may gain ground in long haul, they may continue to lose ground in short haul;
- We note that there is no mention of what are often referred to as Charter carriers which, for Gatwick and other airports, are an important part of our traffic mix; and
- Most important of all, we believe that the most likely (and therefore the most credible) outcome is a mixture of all three Futures
 - the alliances will retain their position in long haul;
 - European hubs will increasingly be bypassed with the growth of new hubs elsewhere and use of new technology aircraft; and
 - the low cost carriers will continue to gain market share, with that growth taking place away from today's hubs, and involving an increasing level of self-connection.

3.1 and 3.2

These paragraphs would benefit from inclusion of statistics and trends over the last 20 years or so; this lack of statistics leads to the impression that most passengers are either flying from one focal airport to another, or flying to/from a focal airport from/to a non-focal one, and that “separate journeys in their own right” represent a minor left-over category, whereas they actually account for the majority (60%) of UK passengers.

3.3

As the paper says, these are extremes; it is impossible to imagine a mega-hub dealing only with transfers – what would be the point?

3.4

The Commission rightly points to the lack of sufficient study and debate on the point-to-point model; the Commission's paper also gives most attention to hub-related issues, and we would encourage the Commission to rectify the acknowledged imbalance.

3.10 (Box 3)

The heading asks a very pertinent question – **Is Heathrow an effective hub?** Although it is Gatwick's view that the significance of hubs has been overstated in

recent debates, we believe it is important that the UK has one or more hubs which are effective. In addition to its inability to facilitate the wave system, Heathrow suffers from a number of other limitations, many of which are the result of its geographical location and limits, and we would encourage the Commission to carry out a full analysis of Heathrow's effectiveness, so that all relevant lessons are reflected in future strategies for UK airports.

3.15 & 3.16

We note that most of the characteristics of airports listed here by the Commission are in principle common to all airports, focal and non-focal, although the characteristics obviously vary in nature and scale for each individual airport. The distinguishing characteristics between focal and non-focal airports are (a) the transfer demand, and (b) the facilities and systems to enable efficient transfers.

Transfer demand depends largely on the operating models of airlines (as the Commission has correctly observed). Indeed, the fundamental difference between Gatwick and Heathrow, apart from the difference in runway capacity, is the large scale presence at Heathrow of BA's hub operations.

The facilities and systems required for transfers although significant, are not a very large proportion of an airports total infrastructure. And it should be noted that transfer characteristics can change over time e.g.

- Gatwick, which had 20% transfers in the late 1990's and has seen this decline to 8% as airline business models changed; and
- Newark which started in the 1980's as mainly a point-to-point airport, but which has now become New York's principal hub.

3.17

This section omits a further very important aspect of capacity – Capacity Utilisation. Effective airports need to have periods of spare capacity during the day, otherwise they lack resilience when weather or other incidents cause disruption. For focal/hub airports, as Heathrow has often demonstrated, this is particularly critical as the transfer operation is severely impacted if the airport does not have sufficient spare capacity to enable it to recover quickly from the inevitable disruptions.

3.21

This section highlights a key question – **what capacity and connectivity would maximise the benefits to UK residents and businesses while minimising any cost.** We have suggested earlier that such an evaluation should ultimately be made taking account of the nature of the incremental traffic which the additional capacity is going to have to deal with.

Nonetheless, it is instructive to summarise the advantages and disadvantages as identified in sections 3.22 – 3.28 of the Commission's paper:

Advantages of the focal/hub-and-spoke model

- potentially some additional connectivity, with related economic and passenger benefits, over and above what a dispersed system can deliver;
- attractor for businesses that rely heavily on air transport;
- attractive to airlines – economies of scale, stronger competitive position (both leading to higher yields for airlines).

Disadvantages of the focal/hub-and-spoke model

- noise, pollution and surface-transport congestion for those who live in close proximity;
- may draw traffic away from regional airports (with resultant decline in connectivity);
- less equitable distribution of costs and benefits across the country;

- market power and reduced competition can lead to higher charges, less innovation to meet passengers' demands, and less passenger choice;
- less scope and flexibility to respond to future changes in passenger demand.

To this list of Disadvantages, we would suggest is added

- less Resilience, due to having “more eggs in one basket”, and
- less satisfactory Passenger Experience, due to less convenient door-to-door journeys, and the inconveniences of travelling through a very large airport.

To these will need to be added in due course the Deliverability and Economic Viability of different options for expansion; at this early stage, we would only add that expansion of a focal/Hub airport is likely to require higher investment and be more challenging as a project than expansion elsewhere; this applies even more to any project for a brand new mega-hub.

From all of the above, it seems clear that much depends on how great are the benefits which the focal/Hub and Spoke Model may be able to deliver from any additional connectivity it can generate, and how those benefits (if any) compare with the costs and other disadvantages of this Model.

3.35

In the light of our immediately preceding comments, we feel that the summation in this section of the advantages and disadvantages is too narrow.

4.10

Some statistics would be helpful here to indicate whether connectivity to UK regional cities has declined or improved.

4.12

Given the uncertainties of traffic forecasts, it would be better to say that Gatwick will be full by 2020 – 2025.

4.12

We would again encourage the Commission to develop a set of statistics on Transfer Passengers which is generally acceptable.

4.29

The drop in transfer passengers at Gatwick since 2000 highlights again the powerful effect of changes in airline strategies on airport operations; however, these trends can change, as Gatwick's recent success in attracting new long-haul carriers demonstrates, and Gatwick today is much better equipped to serve long-haul carriers than it was in 2000.

4.42 onwards

We consider that, given London's large O&D market, the prospects we see for new short and long haul services, and the opportunity to enhance connections from our strong short haul traffic base, Gatwick could within 20 years be well on the way towards becoming a focal airport. Achieving this would depend on having the capacity which a second runway at Gatwick would bring, but is not critically dependent on a complete alliance transferring to Gatwick. We would of course welcome any such transfer, and we will provide to the Commission in the coming months the results of studies we currently have in progress on such a possible move, the conditions for its viability, and the effects it could have on the UK's connectivity.

In these studies, we will address also what the Commission lists in section 4.61 as potential reasons why none of the alliances has so far moved from Heathrow to another London airport.

5.1

Again we would stress the need for any assessment of the nature of any additional airport capacity to take full account of the nature of the incremental traffic which that capacity is likely to service.