

# **Airports Commission Discussion Paper 04**

**Airport Operating Models –  
a response by Birmingham Airport**



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# 1 Executive Summary

Birmingham Airport believes that the UK needs great airports for Britain's great cities. At a time when the aviation industry is changing quickly and its future shape is unclear, a network approach provides the flexibility and resilience that the UK needs to respond to all future scenarios.

Incremental development of four major long-haul airports across Britain would represent a truly national aviation strategy by supporting the growth of businesses across the UK – something that a “one airport” solution in the South East can never deliver.

Chapter one argues that the airline industry is likely to witness more liberalisation, fragmentation and a shift eastwards – in alignment with the global ‘centre of gravity’.

The difficulty is in predicting the speed at which such changes will take place, how each change stimulates others in a ‘cascade’ and how airline business models might respond to each other.

A constrained hub at Heathrow is unsustainable. Instead, the chapter argues that we need multiple long-haul airport assets, to provide UK Plc. with the flexibility to grow – by responding to changing global economic trends and not just those within the aviation industry.

Chapter two outlines the key characteristics of different airport operating models and their interaction with the airline industry. It argues that the costs associated with giving Heathrow the size or scale necessary to compete with other focal airports outweigh the operational benefits. It concludes that, whatever the solution in the South East, the UK market is still large enough to support three other major airports.

Chapter three expands on the need for a resilient network model, by arguing that there are four long-haul catchments across Britain – each with its own economic identity that requires unique international connectivity.

It illustrates that a “one airport” solution cannot support future growth in aviation demand across the UK.

With secondary airports in retreat, it argues that a network of resilient airports is essential to maintain connectivity and growth for businesses – and choice for passengers – outside the South East. The chapter lays out the benefits of a network approach, and how it complements different expansion options for the South East.

# 2 Response to questions on the rapidly changing landscape of airports, airlines and route networks

## In response to the following Airports Commission questions:

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?
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?
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?

## 2.1 The future of the aviation industry

The world's airlines and airports representative organisations, IATA and ACI, are both bullish about the industry's future. ACI's major concern is with the lack of total airport capacity in Europe, not with the distribution of aircraft and passengers using those airports.<sup>1</sup> This is supported by IATA's decision, in June 2013, to upgrade its global outlook for the airline industry for this year:

- Revenue: USD711 billion in 2013 (previously USD671 billion);
- Ancillary revenues contribution: 5% (up from 0.5% in 2007);
- Airline industry profit: USD12.7 billion, up USD2.1 billion from previous projection;
- Net margin: 1.8%;
- Return on invested capital: 4.8%.

Passenger growth forecast:

- Passenger traffic: 3.13 billion (exceeding 3 billion for the first time);
- Passenger capacity: 4.3%;
- Passenger demand: 5.3%;
- Passenger load factor: 80.3%;
- Passenger yields: 0.3%.

Passenger demand is expected to increase by between 1.7% and 15% per region for 2013, and across all regions. The only negative is a slight deterioration in cargo yields.<sup>2</sup> However, these projections are based upon certain assumptions:

- IATA assumes global trade growth of 4%, GDP growth of 2.2% and, critically, a stable oil price (Brent) of USD108 per barrel, compared with

USD109.5 in previous forecasts and an USD111.8 average for 2012.<sup>3</sup>

- IATA and ACI's forecasts do not account for exogenous 'shocks' and their cumulative effect on airlines. The global airline system is based on a complex assortment of personal and commercial interactions. Incidents such as a volcano in Iceland can play havoc with an airline in Australia, disrupting its schedules and stranding passengers all around the world. The lack of resilience in the UK system means that an incident at Heathrow has similar 'ripple effects' on global aviation.
- Airline reports commonly describe their outlook of the market as "challenging", "volatile", and "uncertain". Uncertainty in particular has become the new normal. The extent of the industry's sense of uncertainty is reflected in the corporate objectives of leading airlines, which have been seeking to enhance their financial position, pay down debt, and align capacity to mass demand, whilst reducing costs and adopting more conservative fuel hedging positions.<sup>4</sup>

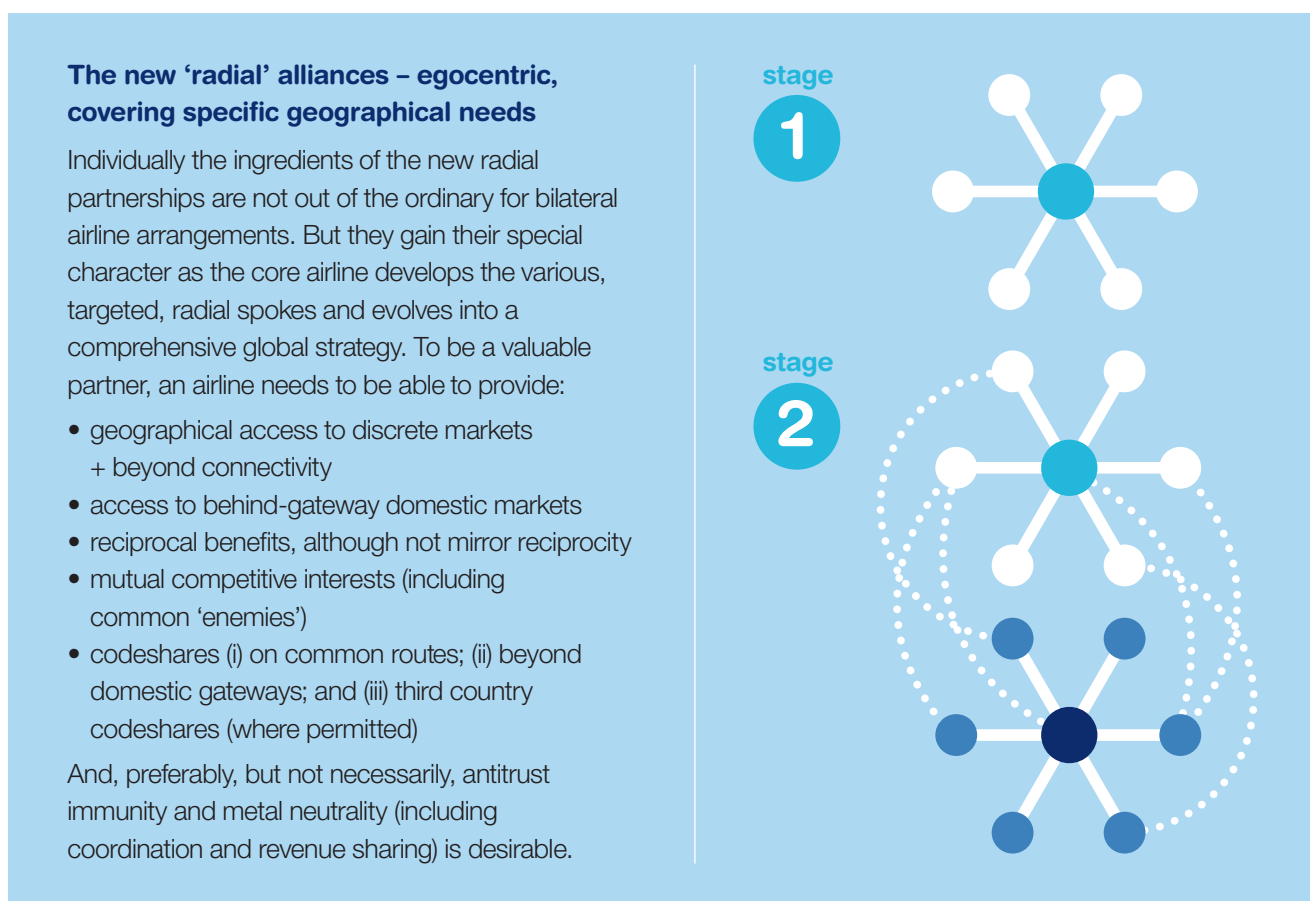
Many legacy airlines are seeking safety in numbers, to reduce costs and generate higher revenues and yields. This behaviour is cautious, reflecting the short-term need to protect shareholder value, rather than serve the needs of passengers and national economies. As a result, consolidation around the incumbent global alliances, Oneworld, SkyTeam, Star Alliance (who account for 54.6% of global seat capacity), is set to continue apace.<sup>5</sup>

## 2.2 Fragmentation and the shift eastwards

Recent trends are threatening the stability of the global alliances, the mainstay of consolidation. This has been driven by a shift towards long-haul to long-haul hubs in the Middle East, airline fragmentation and new market entrants:

- IATA's long-term forecasts show that Middle East airline traffic is projected to grow 6.4%, compounded annually, during the next 20 years, making it the world's fastest growing region for air traffic. This growth is fuelled by Gulf carriers and Turkish Airlines who continue to take advantage of (ICAO) sixth freedom travel organisation, connecting foreign countries via a transfer in the carrier's home country, a model that was once the preserve of both European and Asian carriers.<sup>6</sup>
- Dubai Airport is expected to overtake London Heathrow as the world's busiest international passenger airport by 2016.
- There are increasingly more smaller, unaligned, nimble carriers joining the market which are lower cost and aggressively expansive, and that are moving to centre stage, even in the long-haul arena, such as AirAsia X (Malaysia), Scoot (Singapore), Jetstar (Australia and Hong Kong), Skymark (Japan) and proposed models by FlyA (Switzerland) and even Ryanair.
- Some airlines seem to perceive greater value in developing their own ad-hoc linear alliances with one or more additional carrier(s) to operate in specific regions. The agreement between Emirates and Qantas is a good example, while neighbouring Etihad Airways has negotiated four individual alliance agreements and is working on more. Changes of this sort are examples of the development of new constellations, see Figure 1, which may prove to be of some strategic benefit to airports such as Birmingham Airport.
- Another factor increasingly being taken into account in these 'do-we-merge/consolidate-or-not-and-with-whom' scenarios is the continuing decline in premium traffic, which is currently hovering at around 8% of the total (January 2013), having been 9.6% in January 2007 and having fallen to a low of 7.5% in January 2009. The reduction of 1.5 percentage points might appear to be insignificant but it represents a much higher proportion of global revenues. Meanwhile the more nimble, often unaligned, carriers referred to earlier are able to negotiate a way through the economic quagmire more easily, without having to consider the effects of their actions on others.<sup>7</sup>
- The eastwards swing is visible in the airport sector. Of the top 20 global airports in terms of seat capacity offered only four are in Europe (London Heathrow, Paris CDG, Frankfurt International and Istanbul). Nine are in Asia Pacific and one in the Gulf (Dubai). That contrasts interestingly with the regions with the highest seat capacity overall, in which category Europe comes second, only slightly behind North America. This suggests that seat capacity is much more widely spread already than at just the main 'focal airports'.
- Coincidentally, with the inaugural flight of the Airbus A350 on 14 June 2013, a future competitor to the

**Figure 1 – the evolving “constellation” alliances**



Source: Harbison

**Table 1 – Analysis of the impact of air connectivity from non-focal airports in the UK**

| City region | Explanation   |
|-------------|---|
| Manchester  | The Gulf carriers reacted to the withdrawal of British Airways services from Manchester Airport by making Manchester their second airport in Europe in terms of the number of weekly services available to and from the Gulf.   |
| Newcastle   | Analysis by UK Trade & Investment suggests that since the introduction of a daily service to Dubai by Emirates in September 2007, the region there has been a notable boost to exports and trade. The analysis shows a rise in trade from £150 million to £275 million between the North East and Australasia over the period 2007–2012. A study of the International Passenger Survey, UK Civil Aviation Authority (CAA) Passenger Survey and CAA Statistics also leads to an estimate that inbound passengers on the Dubai service spent around £16.7 million in the North East of England in 2012, supporting around 230 jobs in the tourism industry. Separate research has analysed the journey time benefits derived from shorter travelling times for passengers and businesses and the productivity benefits triggered by these. On the basis of 2012 traffic levels, the consultancy suggests the service will bring net economic benefits of £4.6 million to the North East or when considered across the five year life of the service, around £20.3 million since September 2007. |
| Birmingham  | Air India has just launched a new Birmingham-Delhi route with one of its new Boeing 787 Dreamliners. Tickets have gone on sale for flights starting 1st August 2013. This proves that there is strong demand for strategic long-haul services from the Midlands region and that point-to-point is viable outside of Heathrow and that it continues to evolve.   |

existing and future Boeing 787 variants (which will now include a larger version for very long trips) and the B777X long range variants, the future for the non-focal airports continues to look brighter. These aircraft possess a mix of economic parsimony and operational versatility that suits those airports well.

The interaction of these factors influences capacity restraint in the major aligned carriers, to the extent that the new growth, globally, is mostly from new airlines. It is therefore prudent, in the context of national aviation strategy, to be cautious when examining past performance of (UK and European) airlines and their current business aspirations – as they may not necessarily reflect the emerging global reality.

### **2.3 What these trends mean for the UK's non-focal major airports**

The construction of additional airport infrastructure in and around London will not remove the threat to the gateway hub because the Gulf carriers, Emirates in particular, have already established critical mass and have identified their airports in the minds of travellers as acceptable alternatives. Moreover, it is in the Middle

East where airport, as well as airline, capacity is being added. Table 1 shows evidence of the commensurate benefits that connectivity via non-focal airports delivers for the wider UK economy.

### **2.4 Summary**

The airline industry is likely to witness more liberalisation, fragmentation and a shift east. The difficulty is predicting the speed at which each of these trends will take place, and how they respond to each other. What this analysis shows is that the UK's reliance on a constrained Heathrow as its dominant gateway is unsustainable. Focal airports are important, and airports such as Birmingham and Manchester may or may not become the UK's main focal airport themselves, but airlines are increasingly aware that UK catchments around these airports can support thick network airline spoke routes from a wider range of international focal airports, and long-haul point-to-point offered by new aircraft. We need long-haul airport assets across the country to deliver the flexibility and resilience the UK needs, both to engage with any development in the airline industry, and to better connect UK Plc.

# 3 Response to questions on the key characteristics of the different airport operating models

## In response to the following Airports Commission questions:

1. What are the impacts on airlines and passengers of the fact that the wave system at Heathrow operates under capacity constraints?
2. 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?
3. 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.
4. Do focal airports and non-focal airports bring different kinds of connectivity and, if so, which users benefit the most in each case?
5. 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?
6. To what extent do transfer passengers benefit UK airports and the UK economy?

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

Heathrow describes itself as a hub airport but does not have the essential characteristics of a 'true' hub airport:

- It is not dominated by the 'national carrier' (currently 46% of capacity but over 50% with oneworld members, 51% (>60% with SkyTeam) for KLM at Amsterdam, 55% for SWISS at Zurich Airport and 49% for Austrian Airlines at Vienna. But those airports are single terminal buildings.
- It is spread over four terminals and connections even between flights of the 'national carrier' are relatively uncoordinated and random – though alliance growth has made it less random than it was previously.
- There is no true 'wave system', so connecting passengers are not handled quickly. The reconstruction of the old terminals one and two, the addition of capacity and centralisation of alliances in specified terminals will help but the design of the terminals themselves, at least thus far, is not conducive to the hub operations that are up to 35% of total traffic.
- There may be a case for the consideration of developing a genuine hub airport, should



the ‘hub model’ be accepted as being in the national interest.

- British Airways’ (BA) Heathrow services primarily serve the point-to-point traffic generated largely by London. BA has withdrawn services from regional airports and cities, arguably stifling economic growth and benefit in that region.

### **3.2 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?**

The parameters of an airport’s physical infrastructure have material impacts on the operations of that airport. The slick operations at major US focal airports, where upwards of 60 to 90 mppa are handled, rely to a large extent on fortress hub models and large terminal buildings. Europe’s other focal airports – Paris Charles de Gaulle, Frankfurt am Main, Amsterdam Schiphol and Madrid Barajas – have substantial built-in flexibility, with multiple runways and vast terminal developments with integrated surface access. As a result, their resilience is excellent. Many areas with strained focal airports are seeking to expand to respond to future growth – Chicago O’Hare, Chicago Midway, Lisbon Portela, Sao Paulo Congonhas, Mexico Juarez, Beijing, Mumbai, Dubai, and Istanbul Ataturk.

In consequence, it may be apposite to support the construction of a ‘fit for purpose’ focal airport to cater for the world’s largest air traffic volume around London. However, the UK is a complex market. Heathrow has long reached the viability of its scale of operations, but is constrained by political and environmental externalities. As a result, the costs associated with giving Heathrow the type of size or scale necessary to compete with other focal airports outweigh the operational benefits, and it is unclear why such an option might be in the national interest.

### **3.3 Would expanding UK hub capacity (wherever located) bring materially different advantages and disadvantages from expanding non-hub capacity?**

The UK’s great cities need great airports. If the Commission concludes that the UK needs an enlarged hub, or seeks to manage Heathrow as a constrained

hub, the UK market is still large enough to support three other major airports around Birmingham, Manchester and Scotland. Expanding airport capacity is essential in the long-term, with London’s total demand large enough to be consolidated around a mega-airport, but not at the expense of the economic fortunes of other regions in the UK.

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

Non-interline connections were in excess of 30% of total throughput at Stansted in 2011. This is similar to transfer patterns at Heathrow and similar activity is likely at other primary airports to varying degrees. This variety of unstructured connectivity, most frequently using LCCs (although legacy airlines may also be involved), runs in contrast to traditional ‘IATA’ connectivity at airports such as Heathrow. It is not necessarily the case that business travellers benefit most from IATA-style connectivity as ‘business’ now includes vast swathes of SME travellers who have become sufficiently savvy to play the system on independent tickets, with an acceptable degree of risk (of failing to make a ‘connection’) built in. Nevertheless, non-focal primary airports will continue to play a major part in hosting unstructured connectivity as LCCs relocate there, while non-focal secondary and tertiary level airports will not.

### **3.5 What would be the competitive effects (both international and domestic) of major expansion of hub capacity, and what are the associated benefits and risks?**

Several airports, notably Amsterdam, Gulf hubs and Istanbul, have set out their stall to benefit from the perceived lack of connectivity via hubs in the UK owing to capacity limitations. They are doing this by increasing the number of services they operate to existing focal airports (and which in some cases are, themselves, becoming capacity constrained as a result as demonstrated by the reduction in UK and other services at Dubai while a runway is being resurfaced). Therefore, the competitive position of UK aviation might be enhanced by provision of additional hub capacity. But there would be little benefit if airlines chose not to

use it. It is important to acknowledge that what may be advantageous for the competitiveness of airlines may not be overall of advantage to the geographically-disparate economy of UK Plc.

Some airlines have voiced opposition to a green field hub airport east of London but the principal problem lies with British Airways, the UK's self-styled 'national carrier', which is committed to operations at Heathrow Airport; and Virgin Atlantic/Delta. The support mechanism for most transatlantic airlines is built at and around Heathrow Airport, meaning there is no desire amongst those carriers in general for a change in location, with the attendant costs. Clearly, there would be substantial industry pressures placed on the Government if it chose to relocate hub capacity to the east of London.

Regardless of the London solution, there would be less risk, and substantial economic and passenger benefits, from supporting the growth of secondary hubs to

service the central and north economies of England and Scotland if desired.

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

There is a benefit as transfer traffic achieves the critical mass at an airport to sustain services that would be unsustainable at the O&D level. This is the case for some thin routes from Heathrow, but airline business strategies are seeking to consolidate around thick, profit-maximising routes at Heathrow. The UK needs to maintain connectivity to thin route destinations, and supporting the growth of routes with thick routes from other key UK airports will release capacity at Heathrow to service transfer dependent routes. For example, Amsterdam, Zurich, Munich and Helsinki will never have the origin and destination demand to support the volume of traffic they carry, yet they have successful regional European economies.

# 4 Response to questions on the structure and operation of the UK aviation sector

## In response to the following Airports Commission questions:

1. 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 network support or undermine the case for a dominant hub?
2. Do you consider that the analysis support 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 account of?
3. 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?

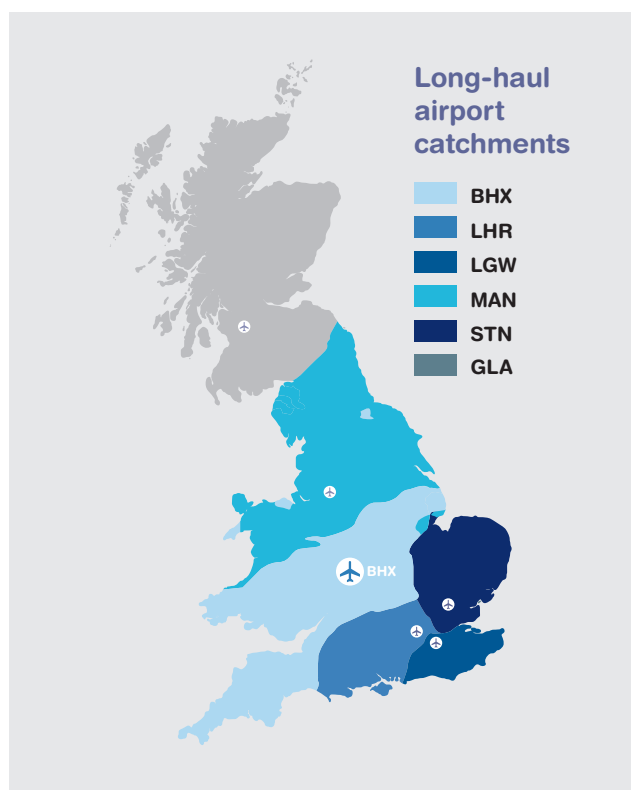
### 4.1 What specific characteristics of the UK and its cities and regions should be considered?

Research by Capital Economics, *Birmingham Airport's role in a balanced British economy*, makes a vital contribution to this debate. It uses surface access analysis by Steer Davies Gleave (SDG), into the most convenient airport with long-haul capability that UK residents can reach by road or rail, to analyse the UK aviation market.

SDG's analysis found that the majority of residents in the UK are within a maximum 2 hour journey time from one of four macro regions – London, Birmingham, Manchester and Scotland. Each of these regions, London excluded, has one major long-haul airport.

Using this catchment analysis, Capital Economics studied the economic activity in each region. They found that each of these macro regions has its own economic identity and requires unique international connectivity to cater for those needs.<sup>8</sup> Chapter 2 discusses the type of activity that connectivity

**Figure 1 – Birmingham Airport's long-term vision for UK aviation policy based on analysis by Capital Economics and Steer Davies Gleave**



from Birmingham Airport would support, but the Commission is guided towards the Capital Economics report for information on other airport catchments.

The SDG and Capital Economics analyses make the case for why the UK's great cities need great airports to compete in the twenty-first century.

## 4.2 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 account of?

Birmingham Airport's report, *Don't put all your eggs in one basket – a challenge to aviation orthodoxy*, analysed the effect on consumers of having to solely rely on a 'single-hub' model for UK aviation. Our research showed that without other major airports across the UK market, consumers were faced with rising costs, delays and a deteriorating passenger experience.

New York – London – Dubai – Hong Kong will remain the backbone of the international marketplace, but consumers are pushing the industry towards long-haul point-to-point. Research by Boeing showed that above-trend growth in passenger, freight and air traffic movements is coming from new city trading pairs, 400 of which were added in the last year alone. Businesses and passengers in established cities in Western Europe want direct flights to Manila, Sao Paulo, Bali and China's new mega-cities Shenzhen, Shantou and Tianjin. Not via a hub, but from their nearest major international gateway. Boeing specifically developed the 787 Dreamliner, "to carry 200–250 passengers on long-range routes capable of bypassing congested hubs", while Airbus and Bombardier are fast-tracking the production of competing aircraft to service this emerging market.

Producers are responding to consumer demand, but traditional airline policy is still hindering the extent to which the UK's major city-regions can access the direct connectivity they need to align their economic activities with customers, investors and their supply chains in long-haul growth economies.

Analysis of the profitability of European airports (in the top 50 for passenger traffic) against airports

below this number (nominally secondary and tertiary airports) shows that Europe, and the UK in particular, is polarising into primary airports that are growing or shrinking less quickly than secondary ones, and which are also more profitable (or less unprofitable):

- Number of **primary airports** suffering traffic losses in 2012: 13 (26%), of these average percentage traffic loss: 5%
- Number of **secondary airports** suffering traffic losses in 2012: 53 (46.9%), of these average percentage traffic loss: 6.52%.

The decline of secondary gateways is the product of the unsustainable expansion of budget airports anchored on low cost carriers (LCCs) servicing small city catchments. Traffic at these airports was primarily short-haul and grew quickly post-2001. The primary driver of growth was the ability to offer passengers low ticket prices, which reflected the willingness of secondary level airports to host LCCs for little, if any, revenue. However, the economic recession and decline in passenger numbers has rendered several of these airports economically unsound.

There has been a steady drift of LCCs from secondary airports (e.g. Glasgow Prestwick, Liverpool) to primary airports such as Glasgow International and Manchester, as all the LCCs – including Ryanair – reposition themselves for reduced levels of growth. And the position of these 'boom-time airports' is set to further deteriorate as LCCs focus on enhanced yield, which can best be achieved at airports where there is more demand for business travel.

The table below contrasts the fortunes of secondary UK airports (Type 2) in the year ending December 2012 with primary ones (Type 1). The figures are taken from data from the UK CAA released in March 2013.

The traffic growth performance of the Type 1 airports in a severely constrained UK and European economic environment is not outstanding, but the contrast between them and the secondary airports is clear. Prestwick and Liverpool are not alone. Plymouth Airport closed at the end of 2011. Coventry Airport, which TUI built up to over half a million a year in the mid-2000s, saw its last commercial passengers four years ago. Other UK airports in similar positions include Durham Tees Valley, Blackpool, Dundee, Doncaster-Sheffield and Cardiff, all of which have witnessed a

**Table 2 – Table comparing the passenger numbers at secondary UK airports to primary UK airports**

| Airport               | Type | Pax 2012 | % increase/decrease |
|-----------------------|------|----------|---------------------|
| Durham Tees Valley    | 2    | 164826   | -13.4               |
| Dundee                | 2    | 54642    | -11.4               |
| Doncaster-Sheffield   | 2    | 693129   | -15.6               |
| Cardiff Wales         | 2    | 1013386  | -16.1               |
| Humberside            | 2    | 233589   | -14.5               |
| Manston, Kent         | 2    | 8262     | -77.8               |
| Newquay               | 2    | 166272   | -20.7               |
| Glasgow Prestwick     | 2    | 1066917  | -17.6               |
| Liverpool             | 2    | 4458500  | -15                 |
| London Heathrow       | 1    | 69983139 | 0.5                 |
| London Gatwick        | 1    | 34218668 | 1.7                 |
| Manchester            | 1    | 19654125 | 4.5                 |
| Birmingham            | 1    | 8916209  | 3.5                 |
| Bristol               | 1    | 5916258  | 2.6                 |
| Leeds Bradford        | ½    | 2968700  | 1.1                 |
| Newcastle             | 1    | 4354648  | 0.4                 |
| Glasgow International | 1    | 7150155  | 4.3                 |
| Edinburgh             | 1    | 9194334  | -2                  |
| Aberdeen              | 1    | 3328533  | 8                   |
| Belfast International | 1    | 4312441  | 5.1                 |

Source: CAA

large decline in their passenger throughput during the last year, sometimes on top of an even larger decline in the previous year.

This trend is not limited to the UK. In its 2011 Economics Report, ACI Europe highlighted that the percentage of loss-making airports in Europe had deteriorated from 41% in 2009 (itself only one year after general economic decline had set in), to 48% in 2010, and despite a recovery in air traffic in 2010. Only larger airports were able to generate profits in 2010, although the profitability of the top 20 airport operators still remained far off 2008 levels. The bigger problem was with smaller regional airports. 75% of airports with less than one million passengers per year were not profitable in 2010, with many relying on public subsidies and other non-operating incomes to remain solvent.

With secondary airports in retreat, it is essential that the UK has an aviation strategy that supports and promotes a network of airports to maintain connectivity for passengers and businesses located outside the South East.

### 4.3 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?

#### 4.3.1 Great Airports for Great Cities – a national aviation strategy

A 'one airport' solution cannot be a national aviation strategy because the UK is too big for all traffic and demand to be supported by one 'focal' airport.

Birmingham Airport's proposal forms part of a network solution for the UK which would deliver Great Airports for Great Cities.

The leading, publicly promoted schemes for additional capacity in the South East are Heathrow Airport (incremental expansion), Gatwick Airport (incremental expansion) and Transport for London (construction of a new hub). **Each of these sponsors is attempting**

**to expand their existing airport site, or construct a new airport, immediately.**

Based on public statements, their submissions are expected to reflect this. Consequently, each promoter is seeking to have their scheme short-listed by the Commission for Phase 2 scrutiny, and ultimately recommended to Government as the Commission's preferred scheme in its Final Report in 2015.

**Table 3 – Benefits of Birmingham Airport's Great Airports for Great Cities aviation strategy**

| Benefit of long-term strategy  | Explanation  |
|--|--|
| Sustainable catchment areas  | It is essential that the economic activity and passenger demand in the catchment areas dictate the size of each of these gateways. Research by Capital Economics and Steer Davies Gleave reveals that there are four regions that have large enough catchments to support a major long-haul airport – London, <sup>9</sup> Midlands, North West and Scotland.  |
| Global connectivity for all  | Basing an aviation strategy around these four gateways would ensure that the majority of residents in the UK live within 2 hours surface access journey time of at least one UK gateway with global connectivity.  |
| Plugging the UK into global wealth                                     | Each of these airports should act as the international connectivity dimension of that region's economic growth strategy, and support growth in the twenty-first century.   |
| Rebalancing the economy by sharing the benefits of an economic enabler | Promoting connectivity at four strategic airports, whether hub or point-to-point, builds on research by the CBI, Trading Places. The CBI found that transport infrastructure and international connectivity are economic enablers that provide a pathway to a virtuous cycle of growth. Aviation policy is not just about runways, each major regional economy cannot succeed without its own meaningful international gateway.  |
| A 'one airport' solution is not a national aviation strategy           | Only by pursuing a truly national aviation strategy based on a network of national airports [with a constrained Heathrow acting as a hub/ or a new hub in the South East, and complementary growth at other airports] will the Commission achieve its objective of maintaining the UK's status as Europe's most important aviation hub.  |
| Enhancing our status as Europe's aviation hub                          | A strategy that actively promotes a network of national airports will ensure that the UK's range of freight and passenger airport assets surpass those of our European competitors – such as Germany, France, Netherlands.   |
| Responsive to changes in the airline industry                          | A network strategy will ensure that as the UK economy develops over the twenty-first century, it will have infrastructure with the flexibility and resilience to respond to any type of development in the airline industry. Only with a network can the UK have the agility it needs to cater for the route consolidating, profit-maximising and uncertainty driving the corporate strategies of established legacy airlines, the footloose and profit-chasing characteristics of new long-haul airline entrants, and dynamism of Europe's low-cost carriers. |

On the basis of publicly launched schemes and the views included within the Airports Commission's Discussion Paper on Airport Operating Models, Birmingham Airport believes that there are three leading variations in long-term policy that the Commission could pursue:

1. Incremental expansion of capacity at Heathrow, with additional future development safeguarded, and possible expansion at Gatwick in the long-term.
2. A dispersed model based on competition between a network of airports serving the South East with Heathrow managed as a constrained hub. This would involve the Commission supporting incremental expansion at Gatwick immediately and safeguarding expansion at Birmingham or Stansted in response to future demand.

3. The construction of a new hub in the South East and consolidation of the London airport network, as proposed by Transport for London. This would involve the likely closure of Heathrow, making the best use of existing capacity at Birmingham, Stansted and Gatwick during the transition period as a new airport is built, and support for expansion at Birmingham or Stansted as demand dictates.

The relationship between Birmingham Airport's second runway publicly promoted long-term schemes for additional capacity is summarised in table 3.

Birmingham Airport does not oppose operating Heathrow as a constrained hub (see below), but is opposed to the type of expansion proposed by Heathrow in their latest report, *Best Placed for Britain*, for two main reasons:

**Table 4 – A strategic table showing how various proposed expansion schemes relate to each other**

|                                | Birmingham<br>2rw | Heathrow<br>3rw | Heathrow<br>4rw | Gatwick<br>2rw | Stansted<br>2rw | Stansted<br>4rw | Thames<br>Estuary<br>Inner 4rw | Thames<br>Estuary<br>Outer 4rw |
|--------------------------------|-------------------|-----------------|-----------------|----------------|-----------------|-----------------|--------------------------------|--------------------------------|
| Birmingham<br>2rw              |                   | N               | N               | Y              | P               | P               | Y                              | Y                              |
| Heathrow 3rw                   | N                 |                 | Y               | P              | P               | N               | N                              | N                              |
| Heathrow 4rw                   | N                 | Y               |                 | N              | N               | N               | N                              | N                              |
| Gatwick 2rw                    | Y                 | P               | N               |                | Y               | N               | N                              | N                              |
| Stansted 2rw                   | P                 | P               | N               | Y              |                 | Y               | N                              | N                              |
| Stansted 4rw                   | P                 | N               | N               | N              | Y               |                 | N                              | N                              |
| Thames<br>Estuary Inner<br>4rw | Y                 | N               | N               | N              | N               | N               |                                | N                              |
| Thames<br>Estuary Outer<br>4rw | Y                 | N               | N               | N              | N               | N               | N                              |                                |

Y = fully compatible P = Potentially compatible N = incompatible



- A third runway at Heathrow is a 15–20 million passenger answer to a 100 million passenger problem in the long-term. Once the runway is built, it will immediately require a fourth. If the Commission decides it wants a hub solution for the South East, the chosen airport should have at least four runways and room for further expansion. Through no fault of its own, Heathrow's location in the centre of West London precludes this level of expansion.
- The Coalition Agreement, Labour Party, Mayor for London, London Assembly Members and numerous Local Authorities have ruled out expanding Heathrow beyond 480,000 Air Traffic Movements because it would expose too many people living in West London to unacceptable noise and air pollution. Birmingham Airport supports this position.

The striking feature of Table 2 is that Birmingham Airport's scheme complements the different expansion schemes and national policy strategies promoted by Gatwick, which would keep Heathrow open, and Transport for London which would close Heathrow.

If the Commission decides that the solution to the South East is a new mega-hub, and it can overcome the immense challenges to building it and closing existing airports, Birmingham Airport is ideally placed to provide additional long-haul capacity and connectivity for the South East during that transition period.

However, if the Commission decides to operate Heathrow as a constrained hub and chooses to expand existing airports, Birmingham Airport will be an essential piece of the jigsaw. Its central location makes it an ideal location for a more dispersed, competition-based model for UK aviation.

Both of these scenarios would deliver great airports for Britain's great cities. A network of airports to provide the flexibility and resilience the UK needs to respond to changes in aviation industry, and infrastructure assets that match those currently serving Germany, Europe's leading economy.



# Endnotes

1. Olivier Jankovec, Director General, ACI Europe, at the Annual Assembly, Istanbul, June 2013
2. IATA 2013 revised industry forecast, June 2013
3. IATA 2013 revised industry forecast, June 2013
4. Harbison et al, CAPA Global Aviation Industry Outlook 2013 (April 2013)
5. Harbison et al, CAPA Global Aviation Industry Outlook 2013 (April 2013); data derived from Innovata
6. IATA 2013 revised industry forecast, June 2013
7. Author research
8. The Capital Economics report was submitted to the Commission as part of Birmingham Airport's submission to the Commission's Discussion Paper on Aviation Connectivity and the Economy. The report contains detailed analysis of the economic activity, and passenger groups, each airport supports. Please refer to the report for additional information.
9. This vision supports two different models for London – either a dispersed model with a constrained Heathrow, or the closure of Heathrow and the construction of a new hub to the East of London as recommended by Transport for London.

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