



Response to Airports Commission

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Date 29 June 2014

This document identifies the position of London Oxford Airport relative to the questions raised in The Airport Commission's discussion paper 06

London Oxford believes it has a role in both responding to community needs to properly establish domestic and near European destinations airline operations. This would additionally have some effect on alleviating the capacity constraints at Southern airfields over the next 10 years and beyond.

#### **7.1 Non shortlisted airports connectivity and capacity**

In the absence of any major climatological disruption, warfare dispute, or political change in direction, the use of air transport for the purposes of population mobility will increase unabated over the next 40 years. There seems little dispute within the range of growth forecasts already published.

The human species is by nature inquisitive and the ability to travel at least in part satisfies this trait. This growth in demand will be more relevant in the leisure sector and the rate of growth will vary in mind of global regional economic growth and levels of affluence. Further the forecast growth suggests a bias towards greater growth in air travel utilising low cost carriers. It is likely that medium and long term, the low cost model will dominate across European and domestic services as air travel continues to become less a luxury purchase and more a commodity purchase. It is possible that in spite of some false starts, the low cost model will also achieve some level of acceptance within the long haul sector of the industry. Would there be benefit therefore in prioritising airport development at those which have already developed a successful revenue strategy which accommodates the operation needs and commercial arrangements associated with low cost carriers? Those airports have witnessed customer acceptability of that airport in using low cost airlines. With that concept in mind, Heathrow has adopted a strategy to date of focus on legacy markets and being unaccommodating towards the low cost sector. Slot constraints will force the continuation of that strategy pending additional runway capacity availability.

Alternatives to face to face corporate meetings globally will see corporate travel volumes grow at smaller rates or even remain generally static.

The concept of the hub airport clearly has a benefit both to the airline operator and airport. It also offers benefit to the residents/users in the local territory around the individual airport. The collection of hubbing passengers from other more distant points to support the local need and assist the occupancy of air transport operations allows any route to reach a level of profitability at an

earlier point in time. Thus the strategy of hubbing enables a wider offering of destinations and frequencies over time.

However for those outside the natural catchment of the airport in question, air travel via a hub **represents a grudge purchase**. These customers would far rather travel on a direct service from their local departure point, **assuming it exists and with frequency, timing and tariff that fall into the acceptable range**.

With focus on a hub concept, the wider UK community is effectively offered only its second choice of departure point to many destinations. However it is worth noting that certain destinations will have thin UK total market potentials that would not offer route viability from multiple regional departure points. To certain destinations therefore, there will be need for hub operation to gather passenger numbers to enable a viable single operation.

### **7.3 Domestic air connectivity reductions**

Given the critical nature of availability of runway slots at Heathrow (over many years) and the ‘use them or return them’ policy adopted by the airport owners, the value attached to slots already held by airlines has held significant importance. The operation of domestic services has been seen by airlines over many years as a lower cost method of retaining the slots and the value of the slots against future better use whilst earning some level of income from their current use. Objectively, the reduction in UK domestic services to Heathrow over the last 10 years, both in terms of destinations served and frequency has been matched by increasing frequency on established non-domestic destinations and introduction of new destinations by carriers able to increase their profits flying these alternative more lucrative services utilising these same slots.

The critical nature of future free slot availability at LHR will see commercial pressures result in the further migration of LHR slots used currently for domestic route purposes to long haul international services. This pressure is driven by both the airlines and Heathrow owners. In the absence of any ability to make available new runway slots prior any new runway availability, airport shareholders will expect further revenue improvements each financial year which can only come through the increase in passenger throughput at the airport per existing runway slot. Each slot would then support a larger capacity unit, resulting in greater passenger throughput. It is likely that recent domestic route re-introductions to LHR relate to the re distribution of slots resulting from BA’s acquisition of BMI. These recently introduced services have in part the purpose of slot protection for the slot ‘owners’ (especially in mind of the additional inherent value of common timed or multiple common timed daily LHR slots). In MOST cases they have resulted in providing competitive services on already established routes, rather than the re-introduction of services to ‘lost’ domestic destinations. The life cycle of these additional domestic services is likely to be limited and subject to termination. This will result from airline long haul fleet additions enabling more lucrative long haul route opportunities to commence as they become available. These will follow further bilateral air service negotiations which will see improved access to countries like China. Migration of slots from domestic to long haul use delivers a resultant revenue improvement for the airline (larger passenger numbers, higher comparative passenger tariffs) and also the airport, seeing incremental revenues from non-aeronautical areas and incremental aeronautical charge increases – larger aircraft size, larger landing fees.

**The slot constraints at other UK airports are far less onerous than Heathrow. Therefore it is unlikely that routes or route frequency will be lost across regional domestic city pairs as a result of the requirement to use those slots for more lucrative purposes.**

#### **7.4 – Changing Airport business models**

Infrastructure costs make the operation of smaller airports particularly challenging.

The infrastructure necessary to provide safe aviation operations (essentially RADAR , radio navigation aids, Licenced air traffic control etc. ) at smaller airports, which comply with the regulatory oversight requirements and acceptable levels of operational support for aircraft users is generally comparable with larger airfields . However the costs of provision are spread across lower frequencies of use. This leads to either higher end user charges or longer payback periods to deliver necessary returns on investments. To impose higher end user charges further competitively disadvantages the smaller airport.

Especially across the wider airport sector significant incomes, as much as 50% of total airport incomes, are now derived from non-aeronautical areas – retailing, property leasing, car parking etc. This requires a critical mass of passengers to provide attraction to third party retailers to establish such retail revenue generators. Thus some of these aren't available as revenue streams to the smaller airport. This is particularly relevant within the airport category of 1 million pax per annum or less. Again this places the smaller airport at a disadvantage. The combination of lower aeronautical incomes, non-aeronautical incomes and high infrastructure costs (compared with its relative use) is that challenge for the smaller airport.

Smaller airports at an earlier stage of commercial maturity tend to attract smaller regional carriers operating smaller capacity aircraft. These inevitably see higher per seat operational costs which in turn require higher average seat prices to allow profitability to be achieved. In order to achieve that, marketing focus on certain segments (for example the corporate sector which pays higher seat price in return for booking flexibility) constrains the attractiveness of the services across all potential market segments. Leisure passengers will be deterred (through pricing) in order to allow the seat occupancy by corporate customers paying the necessary higher seat tariffs.

In comparison, an A320 with 180 seats has significantly lower per seat operating costs coupled with a range of tariffs attracts a range of corporate and leisure sectors allowing greater carryings , greater passenger throughput and increased opportunity for the earning of non-aeronautical revenues.

The Oxford airport business model has evolved in mind of the needs of the community.

London Oxford Airport has a recent strategy of developing facilities to support the Business Aviation sector and has successfully achieved a role in this market with average movements comparable with Biggin Hill and Farnborough. A fleet of 30 + Business Aviation units based at Oxford supports the needs of local industry sectors. Within that fleet, some 30% of aircraft are registered to business locations with London postcodes. In effect the airport already supports the needs of London based senior corporate travellers.

The airport now has a revised strategy to develop 'niche' scheduled services. With the established infrastructure it can target domestic and near European destinations within a flying radius of 90 minutes. This typically allows focus on Scottish and Irish domestic destinations as well as Amsterdam, Paris, Frankfurt and similar European destinations. All destinations have a significant demand from the travelling corporate sector and thus the focus will be delivery of services that support primarily this sector.

Oxfordshire as a county sees an annual air transport activity of 2.1 million O&Ds (UK CAA derived statistics). This is a significant county travel demand. Without the development of services from

Oxford, all this traffic spills primarily to Heathrow, Birmingham and to a lesser extent Bristol and Luton.

This is inconvenient for the local community and increases the road congestion/carbon emissions resulting from longer surface transport supporting journeys to these more distant departure/arrival points. This suggests that the near future availability of a limited range of services from Oxford to those destinations mentioned would alleviate considerably the surface transport congestion and carbon emission issues. Further it would provide significant improvements in convenience and mobility for the local population. Thus the airport has an existing infrastructure that moving forward can alleviate the constraints on population mobility and also provide some alternative airline solutions caused by the lack of future route development opportunities at the 2 major southern airports. Oxford is in the final stage of negotiating services to Edinburgh which should launch September 2014.

London has significant attraction/commercial advantage as Capital city. It is a major UK/Global financial centre and a head office location for many UK businesses and European headquarters for many overseas organisations. As a result, the volume demand for higher yielding seats – corporate travel – across many destinations together with the capital being the major focus for incoming leisure tourism allows many London air routes easier paths to viability. Air transport policies and priorities that date back to the 1950s have ‘preferred’ Heathrow as the major UK departure/arrival point for air travel. Regional operations as a result have not had these historic advantages.

#### 7.5- Enhancing regional airport connectivity and ‘intervention’

Excluding domestic routes serving London, air travel demand will exist between UK points where the connecting points are relatively mutually distant and where air travel provides time saving at an acceptable relative cost compared with alternatives.

Example:

Doncaster –Edinburgh would not provide sufficient time or tariff advantage compared with East Coast Rail which delivers direct services between city centre locations within 3 hours and with a range of attractive tariffs matching the needs of both corporate and leisure traveller.

Whereas

Oxford –Edinburgh would provide a time advantage compared with the current 6 hours city to city rail time and with an acceptable tariff spread, would be viable with the travelling population requiring this city pair air connectivity.

Thus, where both convenience and tariff value fall in to the area of acceptability there would be no barrier to the continued organic growth of domestic air services. One Caveat to this argument is presented by the double whammy APD (applied to each sector of a domestic return journey) which generally disadvantages the viability of all domestic operations and appears as a visible air travel tax in comparison with rail which has no visible travel tax.

#### **Major options to support regional airports development- recommendations to date**

From an airport services competition point of view, there is value in identifying the real range of competitors that airports face and certain disadvantages that prevail for UK regional airports.

From a travelling customer point of view, common sense suggests that a regional airport has competition from near peer airports that can offer competitive services to the required customer destination. Customer choice is based upon convenience and price.

However from an airport strategy and route development perspective all European Airports are competitors. In the European trading area, any licenced European carrier can access any European city pair whether domestic or international and without reference to the carriers base country. Europe's airlines have free access to any European city pair. There exist some 5000 unserved or underserved available European city pair routes with perhaps enough airline spare capacity to undertake 10% of them.

The attractiveness of a route relates only to the cost of its operation and the potential for earning revenue in excess of the cost.

Critical to the decision making is the known loss incurred during the start-up phase of the service. Any way of mitigating this loss features large in that decision-making process... This is where non UK countries take the advantage. In Germany and France, they take advantage of nominating normal city pairs as requiring special support – effectively as the UK nominate PSO routes but those countries have a far more relaxed interpretation of the rule. Thus UK airports/airlines fail to receive the same level of commercial support for starting routes. Thus the choice for any carrier is to commence a UK service with little or no commercial support /subsidy, or commence operations with a lower risk and cash flow issue in a mainland Europe location. The scarce resource of an available airline unit to choose between no assistance in the UK or much more attractive less onerous operational commencement from other countries often results in success for the mainland Europe Airports.

Decision to operate is based on level of assistance in addition to route potential and UK airlines have taken advantage with their units operating in France for example, where the decision to operate is based on the above options and benefits.

## **7.6 Recommendations to support 7.5**

There exists significant available runway and terminal infrastructure capacity across the UK. It could be argued that this has little value unless it is geographically suitably positioned adjacent to the customer.

Regional airports have historically been disadvantaged, resulting from a combination of poor legacy legislative arrangements and lower levels of attractiveness compared with the Capital. Some of the legacy issue even prevail today – example- the focus of UK scheduled services to China limited to London Airports.

**It could be argued that temporary preferential commercial arrangements for regional airports could assist in making better use of existing infrastructure and in doing so assist in drawing the customer base back to its true point of origin.** This would have the benefit of relieving Heathrow of a proportion of hub traffic which would prefer a local departure anyway thereby freeing seats for increased local use. These arrangements could include bi lateral preferential arrangements for non-south east airports for long haul destinations, taxation holidays linked to the early stages of route developments, financial incentives for specific routes where specific local business needs are proven(significant links between local manufacturing and remote supplier/sales/overseas

manufacturing subsidiaries- etc.), and greater emphasis on non-Capital tourism promotion by the national tourist authority.

There is no doubt that successful airports have the ability to create positive micro economic geographic areas around them. The biased aero political support over many decades towards Heathrow may have played some part in creating a south east centric spike in business opportunity and affluence compared with other UK regions .

It may be beyond the remit of the commission to identify a solution which re balances the aviation infrastructure in order to assist the rebalancing of economic regional variations. But there appears no doubt that a solution that continues to 'prefer' a south eastern UK air transport focus with a single defined hub city will do little to address that economic re distribution.

### **7.7 Constraints to South east Airport further utilisation**

The availability of new lower capacity efficient long range aircraft types- B787, A350 etc. make more likely the future development of point to point services from regional airports where market sizes have not been able to support B747/A380 type operations. These high capacity aircraft types have been core in the establishment over the last 30 years of hub type operations.

Witness the more recent ongoing improvements in long haul services at Manchester, Birmingham, Glasgow, Newcastle, Edinburgh where smaller capacity units(B757/767/777/ A330/B787) can better match market potentials and allow the development of these destinations into viable direct services. Further the technical airfield performances of the units allow operation from shorter length runways almost without payload or range constraint, again allowing regional operations with little or no airfield infrastructure additional investment to accommodate them.

In combination, this reduces or negates the need to travel via the Heathrow hub to these destinations.

### **Summary**

**Domestic (non -Heathrow) services will continue organic growth where passenger volume/time/tariff advantage exists. Heathrow domestic services will always be under threat in terms of destination frequency and destination numbers whilst the option of slot use against long haul operation exists**

**There is debate that a single additional Heathrow runway with an availability in the late 2020s will do little to improve domestic connectivity. These additional slots will be far more valuable where the operators utilise them against long haul services and the demand is likely to see the majority used this way.**

**The improved use of existing runway capacity would better use existing infrastructure at a significantly reduced cost compared with the alternative costs for the south east runway options. It would improve the regional communities' mobility by more often offering them their first choice (local) departure point. This would have multiple benefits which would include reduced surface transport times/emissions, and improvements (re distribution) of local wealth resulting from the micro economy employment benefits around regional airports.**

**An approach to regional airports at the aero political level should recognise the tax/ regulatory/ state aid imbalance across countries (particularly UK) that currently favours the use of the European aircraft fleet outside of the UK boundary.**