



## **BAR UK response on Airports Commission call for evidence Use of the UK's existing airport capacity**

On behalf of its members, BAR UK is pleased to present its response to the Airports Commission on its call for evidence on use of the UK's existing airport capacity.

BAR UK is an airline trade association representing 74 scheduled airlines who undertake business in the UK.

The views put forward in this response have their agreement. Our members are scheduled operators mainly into Heathrow and Gatwick, with a smaller proportion also operating into Stansted and across regional UK airports.

Being an association, our responses are general in nature as we cannot reply to the questions posed in the document that require specific economic data from individual airlines.

## Questions on the role that non-London airports currently play in providing connectivity and utility to the UK.

***Is the Commission correct to identify a reduction in air connectivity between the UK regions and the London airport network over the last decade? How do recent new routes to the capital, and the stabilisation in passenger numbers on domestic routes to and from London since 2010, affect this analysis?***

The analysis of the Airports Commission appears thorough and correctly demonstrates a market trend. Where market opportunities are strong then airlines will endeavour to find a way to meet market needs on specific routes, within the existing trend of capacity constraints and high costs, wherever they consider it is viable. However, despite these individual developments, regional routes that are marginally viable will continue to be placed under significant pressure.

***How do respondents view these trends developing in the future?***

The underlying conditions are likely to accelerate the existing trend.

***Is the Commission's analysis of the multiple factors influencing domestic air connectivity between London and the UK regions accurate? Of the factors outlined, which are the most significant or important for explaining how the market has developed?***

The Commission has correctly identified a complex combination of factors, often unique to each airport, airline or potential route, that enable conditions for airlines to viably operate a specific route. Among the most significant is how consumer behaviour is dictated by available choices that can then create a domino effect on market demand where:

- Capacity constraints lead to higher slot costs and encourage airport charges that favour larger aircraft with high seat factors
- Leading to route rationalisation and reduced connectivity to the UK hub
- Leading to greater propensity for international travel from regional airports to connect via an international hub
- or for travel for point to point journeys to London to use other London airports or other transport modes
- Leading to less overall market demand on the domestic connection to the UK hub
- Leading to diminishing connections onto the international carrier network at the UK hub
- Creating a greater barrier to entry to new market entrants, less domestic connectivity to support new long-haul routes and impacting the ability for network airlines to reinstate domestic services

***What additional factors, if any, should the Commission be mindful of?***

Reducing connectivity to the London hub can potentially restrict consumer choice in the regions where international connectivity will likely be increasingly provided by an international network carrier(s) feeding an overseas hub, rather than a greater choice of carriers providing connections through the UK hub by interline agreements with the domestic operator.

***Is overall transport connectivity between London and the regions at an appropriate level? What are the social or economic consequences of changes to air connectivity? Can respondents provide any comparisons or other evidence to support their response?***

The economic benefits to the rest of the UK through excellent regional connectivity with London, intra-domestic, and also internationally, is stated and well recognised. Where local businesses, residents and international markets identify inadequate domestic connectivity to London, or inadequate access to a choice of international connectivity, then the international airline community is strongly supportive of enabling measures that allow connectivity to be provided viably by airlines.

***What future trends do respondents envisage in domestic air connectivity excluding routes into London? How relevant are the factors explored in relation to London and the regions for these other domestic routes?***

We believe that those airlines with experience and regulatory permission to operate these intra-domestic routes are best placed to elaborate. The Commission should be mindful of the fact that it is ultimately the airline that will determine the operation of any given service and not the airport operator.

***Is the Commission correct in its analysis of changing purposes of travel and routes types at non-London airports? What are the drivers and ramifications of this trend?***

As airline models continue to evolve and differentiation between models becomes increasingly difficult to define, we can identify a trend where the market is more accurately determined by long-haul versus short-haul needs and point to point or connecting needs. It can be argued that it is the scheduled network airlines operating long-haul services that are most impacted by the current hub airport capacity restrictions since they are least able to operate from an alternative UK airport. However, the knock-on effect is that the scheduled network short-haul services become increasingly negatively impacted. Currently, the point to point short-haul market on non-network carriers is well served and has some scope for growth, even in London. It can also be argued that the current airport capacity environment and associated costs are determining, or possibly even distorting, true free market competition where a particular airline model or flight duration can be advantaged as a result of capacity availability.

Questions on how the business models of these airports are changing, and how they can be expected to change further in time.

***Is the Commission right to identify particular financial challenges for smaller airports? Can respondents corroborate or refute any of the Commission's evidence on financial pressures at regional airports?***

The Commission's findings would seem irrefutable that many smaller UK airports continue to struggle financially.

***Is the Commission accurate in its analysis of the market dynamics affecting the non-London airports sector? Is the Commission correct to identify a broad trend, especially since 2007, in larger regional airports retaining or building their route networks, whilst smaller regional airports' route networks shrink? What explanations can respondents provide for this trend?***

Airline route economics have changed considerably since prior to 2007 and airlines are generally much more risk averse. The larger airports with proven access to a larger geo-demographic area will likely remain more attractive to scheduled network airlines, which is indicated in the demonstrated trend.

***Can respondents provide any evidence to counter or support the Commission's analysis of the UK population having quick access to relatively high numbers of airports, or to build on the Commission's comparison between the UK and other countries' airport networks?***

BAR UK does not have access to evidence, however, the large number of privately owned commercial airports serving the relatively small geographic size and high population density of the UK is well recognised internationally. The key difference with many other countries is that UK airports have a more constrained air and surface access to their country's hub airport.

***What analysis ought the national or local Government undertake when faced with a potential airport closure?***

The airline community would recommend that the Government considers the accessibility of the next nearest alternatives and the range of services provided by those airports against those of the potential closure. The Commission should also fully consider the impact of any competition distortion that could result from subsidy to other airport operators or airlines serving nearby airports, especially given the privatised nature of aviation in the UK.

***In the longer term, what is an appropriate, adequate or ideal shape for the UK's airport system? Is consolidation of the airport network desirable, inevitable, both or neither?***

The airline community supports the provision of airport capacity where it is needed by the airlines to meet market demand. Currently the unfulfilled demand is primarily at Heathrow where connectivity to the regions is considered by many to be sub optimal.

The international airline community supports increased access to a competitive UK hub airport together with the ability for local airlines to connect the UK hub to a sustainable and efficient network of UK regional airports, as required to retain the UK's position as one of the most important links in the global airline network. This model is supported by a vibrant network of point to point domestic and international connections (predominantly short to medium-haul) on non-network airlines.

**Questions on how the connectivity provided by these airports can be enhanced, and on the options to intervene in this sector.**

***Has the Commission correctly identified the major options to support or bolster the regional airports sector? Of the options here explored, which have the potential to be most beneficial?***

From an airline perspective, the relative ease in reaching the widest possible geo-demographic area is vital to sustaining an air service and therefore efficient and substantive surface access is paramount. Provided the optimal infrastructure is in place then it will become a commercial decision between the airlines and airport operators on which routes are viable unless subsidies, incentives or taxation are used to create or support routes otherwise not commercially viable for airlines.

**Can respondents suggest means of bringing about positive change in the context of these options? What recommendations could the Commission make in these areas?**

The airline community has consistently worked with airport operators to achieve the optimal environment in order for airlines to succeed and will support their case to local and national Government in respect to surface access. We request that the Airports Commission continue to highlight the importance of intra-connectivity between all modes of transport in the UK and present successful overseas experience. This is an area the UK has consistently fallen behind on and which is key to unlocking the full potential of the UK's current and future transport infrastructure.

Questions on the constraints to developing further utility and connectivity at airports serving London and the South East, as well as how and by whom these constraints can be mitigated (Chapter 6)

**Geographical constraints**

***Are there longer-term or more extensive surface transport improvements and developments (beyond those committed to in the National Infrastructure Plan) that could support the other London airports to make best use of their capacity?***

BAR UK is not in a position to comment in detail on this.

***Are there any ways that government, or any other stakeholders, could improve airport site access? Are there any innovative ways that airports could resolve site access problems?***

In many cases the improvement of surface access to airports will boost the attractiveness of the airport to airlines by increasing access to the potential market; however, it does nothing to address airport capacity itself, which is determined by runway, terminal and airspace considerations.

The success of Heathrow can be attributed considerably by proximity to its market and therefore improving rail and road access to Heathrow will result in significant local environment improvements but not greatly impact the ability for airlines to increase total traffic on two runways. Likewise, Stansted is likely to have gained a larger market share if it had enjoyed better rail and road access to the greater London conurbation over the past 20 years.

The busiest airports can benefit from an increased number of gateways to the road network that will increase the total catchment potential and reduce congestion hot spots, subject to local infrastructure and planning considerations. We can see examples of this; such as the proposed southern road access to the Eastern terminal area at Heathrow within the Heathrow master plan.

**Planning constraints**

***Are there particular pros and cons to airport developments moving through the NSIP or Town and Country Planning process for a) developers or b) communities?***

BAR UK is not adequately qualified to comment on this item.

***Could either the NSIP or Town and Country planning process be improved, either the process itself or development of supporting policy, to support developers and meet the needs of local communities?***

BAR UK is not adequately qualified to comment on this item.

***Is there a current case for lifting planning caps for any airports in London or the South East? If not now, when should these caps be reviewed?***

Such changes would require lengthy consultation. With the extremely high runway utilisation at the two most constrained airports, Heathrow and Gatwick, it is unlikely any measurable improvement could be achieved without resorting to an increase in night flight movements.

**Commercial constraints**

***Are there any actions stakeholders could take to support airports in mitigating their commercial constraints?***

BAR UK is not adequately qualified to comment on this item.

***Are there any examples of best practice in this area?***

BAR UK is not adequately qualified to comment on this item.

**Airspace constraints**

***Are there any medium term airspace developments that could support making best use of capacity, beyond those set out in the Interim Report?***

The airline community is supportive of airspace reform set out in the interim report.

**Regulatory, tax or legal constraints**

***Are there any new data available that the Commission should review in reference to its conclusions on regulatory tax or legal changes that could alter our assessment of their usefulness in making best use of capacity?***

BAR UK has submitted its own Air Passenger Duty position statement to HM Treasury incorporating key asks including to abolish tax on children. This would benefit regional UK airports with a high propensity for leisure travel. In addition, we call on the Government to seek a way forward with Brussels on the anomaly of double taxation on return domestic flights which is severely detrimental to regional connectivity and rebalancing of the economy. Currently this would require abolishing APD within the distance band applicable to all UK domestic points which would by default also include many points outside the UK. Another possible initiative would be an APD reduction for the winter period of operation since airline economics dictate that many routes are loss making during this period. A seasonal APD reduction could help maintain winter services or extend periods of operation of summer only services that are common at regional airports and also boost total annual capacity utilisation at London airports too.

It is too early in the booking period to assess any measurable impact from the abolishing of APD bands C and D, with effect from April 2015. However, the increase in Band B to £71 dilutes the impact on former band C destinations. It is noteworthy that the majority of potential new routes from regional UK airports would fall within

bands A and B and therefore it is likely that the banding revisions will have little, if any, noticeable impact on regional UK airports.

BAR UK member airlines do not support regional devolution of APD since this would in effect make APD become a London tax. It is not correct to assume that all those in London have a greater ability to pay. Any regional variance will not benefit regional passengers on a return flight to London since it is applied directionally.

Furthermore, airlines are highly sceptical about new route holidays since this could cause significant competitive threats between airlines on similar routes and breach EU Competition laws.

***Are there any areas of legal, tax or regulatory constraint, not considered by the Commission in its Interim Report, which merit further review?***

No new proposals at this stage.

**Impact of Commission final report**

***Are there any topics or areas of further study beyond those set out in the Appraisal framework, that would allow the Commission to understand the impact of development at Heathrow or Gatwick on the other London Airports?***

No further input at this stage although we do request that the Commission continues to engage fully with the international airline community since this is where the greatest international comparative experience exists.

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