

## **Response to Discussion Paper 06**

### **Utilisation of the UK's Existing Airport Capacity**

#### **From the Cheshire and Warrington Local Enterprise Partnership**

"I very much welcome the efforts of the Commission and others to identify a solution which will overcome the congestion problems of the London airports, and also make a significant improvement to the international connectivity from the regions, thereby assisting the Government in its drive to re-balance the UK Economy"

George Osborne MP, January 2014

#### **The Air Travel Market in Context**

Cheshire and Warrington LEP's perspective on the decision relating to a third runway in the London area also extends far beyond the consideration of the interests of the airport owners and the immediately surrounding communities.

We believe that it is imperative that due attention is paid to the following key factors:

1. The Economic Development of the UK in its entirety, and the removal of impediments to free flow of travellers and goods through congestion or a lack of service.
2. The Demands of the market, consisting of:
  - Business Travellers
  - Freight shipments
  - Exporters
  - Potential Foreign Direct Investment
  - Supply Chain connectivity
  - Inbound leisure traffic
  - Outbound leisure traffic
3. The adverse social and environmental consequences of the absence of regional services, both on the regions and on the natural catchment area of the South East airports.

This response is based upon a long-term involvement and deep appreciation of key elements considered in the Airports Commission's interim report, including the realistic opportunities for government intervention, the economics and planning strategies of airlines, and the development aspirations of both large and smaller regional airports. These aspects are well covered in the report and address the requirements of airport operators and airlines, and the constraints on some forms of Government intervention.

Our perspective recognises these issues but directly addresses the market needs which are the paramount requirements to be addressed.

In this context, whilst the Review is correct in saying that a transfer of flights from London to the regions does not improve UK connectivity in terms of total capacity, the Introduction to the discussion paper 06 comments further as follows:

“The Commission’s analysis suggested that there is relatively little scope to redistribute this demand away from London and South East airports, as such efforts would either have limited impact or have a negative effect on UK connectivity and capacity as a whole.”

In reality, a significant element of the London problem is due to travellers from across the UK currently being forced to use a London airport much against their wishes because no alternative service is available locally.

Air services from regional airports also certainly improve connectivity for the nation as a whole in that they free some capacity at the London airports and provide direct access from regional airports with all the ensuing opportunities this opens up for regional businesses.

Connectivity cannot be considered merely in terms of the *number* of seats and options available. It is important to take full account of the factors considered by travellers:

- The cost of travel
- The time taken to complete a journey
- The risk of delays, cancellations or interruptions to service
- Perceived attractiveness of alternative options.

It is also important to note that whatever decision is taken about the location of new runway capacity in the London area, it will take many years to bring those plans to fruition. In the interim it is essential to identify what measures can be implemented, which are complementary to the longer term solution, but go some way to address the current and imminent adverse consequences of restricted air access to the UK, both in London and the regions.

#### Cheshire and Warrington

Cheshire and Warrington enjoys a level of prosperity and economic activity which is un-matched outside the South East.

The proximity of Manchester Airport has been highly instrumental in the economic development of the LEP area providing ease of access to export markets and supply chain for manufacturing, engineering, science and other industries. With direct routes to Manchester from many points in Europe, direct long-haul flights to Asia and to North America, and one-stop connections to other points through many of the world’s international hub airports, ease of access has been a major factor in the survival of businesses and the scale of foreign direct investment.

Without these connections, it would be expected that despite the inherent skills and quality traditions of the area, the decline in economic activity would have been quite marked.

Liverpool Airport also serves the Cheshire and Warrington region and has grown to provide a range of services to short-haul destinations. It has not as yet established the critical mass to attract a broader range of airlines in a similar manner, but it is important to the Cheshire and Warrington economy, providing complimentary services to Manchester and more choice for passengers and businesses, especially in West Cheshire and Warrington.

Our region therefore provides testimony to the two key connectivity requirements of regional airports:

Larger airports seek expansion in direct flights to international business centres to facilitate improved international trade and economic growth.

Smaller airports seek to serve local leisure demand, both inbound and outbound. They also strive to provide connections to other business centres, but frequently this requires connections through a “hub” or transfer airport in their own country.

### The Regional dimension

For many decades, regional airports with ready capacity to expand provided attractive opportunities for new routes from around the world which overseas airlines determined to be viable, but the rigid system of bilateral negotiations between Governments resulted in the demand for reciprocal rights from London for domestic airlines. This severely restricted the growth potential of those regional airports.

Although those restrictions have eased markedly, more recent changes in airline finances have reduced their number of new routes into the UK regions

The ultimate consequence of these past events is the current situation where the majority of UK seat capacity flies from the London airports, although the majority of economic activity in the UK is outside London and the South East.

The congestion, high costs, adverse social and environmental consequences in London can therefore be seen as a consequence of a distortion of the market for air travel, such that large numbers of air travellers who reside outside London currently route via London.

The emergence of efficient Middle Eastern airlines and hub airports, alongside those on the Continents of Europe and North America, and the likes of Singapore and Hong Kong in the Far East have provided increased opportunities to by-pass London for passengers from the greater part of the UK where they have access to these flights from their regional airport.

Cost, and the total travelling time for a journey are the key factors in business travel planning, so we see that flight connections through London from Manchester are now mainly limited to leisure travellers and business people joining a colleague for the onward journey.

A direct air link to the transfer airport is crucial for all outbound passengers from the UK, hence a strong desire from the smaller regional airports for connections to another UK airport with a comprehensive selection of international services.

This desire however has a much greater significance when considered by potential overseas trading partners, direct foreign investors and to a lesser extent, tourists.

The decision process which drives traveller decisions also drives major business investment decisions.

Connectivity is a vital consideration for foreign investors, and direct air connections from the overseas head office to the location of new investments is a crucial factor.

For a US company to consider a foreign investment in a UK region, it will be against all the natural instincts to choose a destination which can only be accessed by over-flying the UK into Europe and then flying back into the region. All other considerations being equal, the time and cost attractions of the European transfer point as the better location for the proposed foreign investment will be a deciding factor against the investment in the UK.

Direct connections are also a key requirement for regionally based exporting organisations and inbound tourism.

London certainly needs more direct services to keep pace with the demands of business from both the London area and transfer traffic from those airports whose only sensible business route would be through London.

However, London also needs to be protected from the adverse consequences of an over-heated economy, congestion, and excessive costs, and unnecessary diversion of traffic into London.

The aim must be to reap the benefits of good connectivity for London by improved airport facilities, but make sure we do not miss the opportunities in the regions which provide 60% of the UK's economic activity.

There is also much spare capacity at regional airports, with local demand sufficient to provide viable air services for the benefit of both airlines and the regional economies.

The most extreme example of this is Manchester airport, with two runways, existing spare capacity, provision for the remote pier to accommodate many additional airport stands, and a regional demand for many long-haul services which is currently served by connections to long haul flights from airports in Europe or the Middle East.

However, the UK has extended the message to the world for over 50 years that London is the gateway to the UK and there needs to be some change of emphasis to promote the merits of direct regional access. Airlines tend to focus on existing business travel patterns when assessing new route opportunities, in the absence of clear communication and evidence of new traffic requirements. This comes at a cost, but is minimal in the context of the cost of the proposed runway construction for London.

London has a magnetic appeal to big business, and airlines recognise London as a Premium market with healthy Business and First Class demand. In contrast the regions are principally Economy or Premium Economy markets. This makes the prospect of a new route to the regions by an overseas carrier less financially attractive than a new route to London, but on a reasonable par with most other parts of Europe which are promoted by their local and national governments.

In today's world, decisions about the location of business activity are often made with a very tight control on costs. This does not relate merely to air travel, but also to the cost of facilities, recruitment, local transportation etc. which means that in the absence of good direct connectivity to the UK regions, overseas investors are naturally inclined to look at the "Economy" locations across Europe rather than to either the UK Regions or London.

It is vital for the UK economy that international business puts the UK regions on their short-list for future investment and bases for export.

## **Conclusion**

It is absolutely vital to the UK as a whole that the London problem is solved, ideally with a proper hub airport - with the ease and speed of connections necessary to satisfy the requirements for feed to the smaller airports in the UK.

While plans are put into effect for a true international hub at the selected location in the South East, measures must be taken to ease the problem for London now and bring the benefits of improved international connectivity for the nation as a whole.

Businesses in the regions want new routes out of London with good connections where national demand can be sensibly concentrated into one viable service, but in general, businesses in the regions would prefer direct flights from a convenient airport to destinations which are only currently served from London, rather than additional rotations out of London.

The London airport capacity problem is a direct result of a larger national connectivity problem.

The smaller regional airports must be guaranteed feeder services into the new hub, and the larger regional airports need assistance to increase their utilisation.

All government agencies need to support the Government's ambitions to rebalance the economy, reducing congestion in London and using capacity in the regions – both with regard to airports and wider economic activity.

Effective attention to these requirements will ease the planning for the new London facility in the longer term, and reduce the scale of the problem while the conclusions of the Commission on the new runway are put into effect.



**21st July 2014**