

ABTA response to the Airports Commission

Discussion Paper 06 Utilisation of the UK's Existing Airport Capacity

Introduction

This response is submitted on behalf of the membership of ABTA – The Travel Association. ABTA was founded in 1950 and is the largest travel trade association in the UK, with around 1,200 members and over 5,000 retail outlets and offices. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names.

The success of ABTA Members' businesses is directly reliant on the UK's aviation infrastructure; many of ABTA's larger Members are themselves part of groups that own airlines. ABTA Members provide 90% of the package holidays sold in the UK, with Members also selling millions of independent travel arrangements. The provision of quality, efficient and competitively priced passenger air travel is vital to the business interests of Members.

The UK is a global leader in aviation. Our strategically important connectivity to all parts of the world grows the UK economy and provides employment by facilitating trade in services, goods, tourism, and investment. Outbound tourism alone generates around £54bn a year for the UK economy, accounting for around 1.6% of UK GDP¹.

ABTA welcomes the acknowledgment by the Airports Commission of aviation's contribution to the economy, value to the community, and that new runway capacity is necessary in the South East. Without urgent action, the UK risks being left unable to compete globally.

The Government must recognise that improvements in surface connectivity and the quality of the passenger experience are also vitally important to a successful transport infrastructure.

Key points

- It is inescapable that whatever attraction the regions hold for visitors to the UK, the vast majority want to visit London. Equally, passengers want to fly from their local airport with Heathrow and Gatwick being the local airport for many.

¹ 'Driving Growth: The Economic Value of Outbound Travel': Centre for Economics and Business Research Ltd., 2012

- Airlines will generally consider any opportunity to operate a service to/from regional airports. Their decision will be based on a number of factors including a wide demand/catchment area and an airport with excellent support infrastructure including good surface access.
- Airports are dispersed across the UK; they are all competing with each other for market share.
- Airlines will use their slots at capacity constrained airports to their best commercial advantage which does tend to mean that domestic routes are being squeezed out.

Consultation Questions

The questions have been numbered for ease of reference.

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

Q1 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?

ABTA believes that the Commission is correct to identify a reduction in connectivity between the UK regions and London. The overriding factor for the regional routes being squeezed out is the lack of available slots at Heathrow, and Gatwick to a lesser extent, with the airlines wishing to use them to best commercial gain, particularly to serve long-haul routes to the emerging markets which will, in turn, contribute more to UK economy

Q2 How do respondents view these trends developing in the future?

ABTA agrees with the Commission that there will likely be a further decline in connectivity between the UK regions and London as airlines use these slots to greater effect. ABTA believes strongly that slots are a commercial matter for the individual airline.

However, new services between the regions and London could be set up providing passengers are prepared to fly into London airports other than Heathrow and Gatwick.

The commencement of High Speed 2 (HS2) services in 2026 might see some passengers changing to rail travel although a greater benefit will only be seen with the implementation of the second phase to Manchester and Leeds in 2032. ABTA believes that HS2 complements but is not a substitute for additional airport capacity. Much of the domestic traffic is not point to point traffic but connecting to other flights which HS2 would not help, particularly if it is not directly connected to Heathrow. We believe strongly that the first phase of HS2 ought to run via Heathrow, not around it, as an integral point on the London to Birmingham route. This was recently supported by a London Chamber of Commerce survey² with those opposed to HS2 saying they would be more likely to support the project if the plans included a direct link to

² London Chamber of Commerce survey by ComRes on key transport issues facing the capital – July 2014

Heathrow and if it was directly linked to HS1. We would encourage the Government and the Airports Commission to look closely at the proposed HS2 route.

Q3 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? What additional factors, if any, should the Commission be mindful of?

ABTA agrees with the Commission's analysis believing that the key reasons are that regional routes are being squeezed out due to the lack of available slots at London's premier airports and the competition from hub carriers outside the UK, particularly Amsterdam-Schiphol and the Gulf States' hubs offering cheaper seats and good connections. The cost of APD is also a factor – see our response to Question 12.

Q4 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?

From the region's viewpoint, undoubtedly it is not. For example, the recent BA announcement that it is to discontinue services from London City airport to Aberdeen in favour of increased services to Edinburgh, Glasgow and Dublin has received a negative reaction from the north east of Scotland.

However, as the Commission has pointed out there are now more direct short-haul flights through the growth of the no-frills airlines and a growing number of connections through the Gulf States' hubs so there is less need to interline through London. The number of long-haul routes served directly from regional airports is growing, e.g. in the last few days Virgin Atlantic has announced new routes for summer 2015 from Belfast to Orlando and from Glasgow to Orlando.

This comes back to airlines wishing to make the best commercial use of slots.

Q5 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?

Airlines will also wish to use their aircraft to best advantage and, if they perceive there is a demand, set up a new route. Manchester and Birmingham now have more long-haul routes and there could be a demand for feeder flights from other regional airports.

Q6 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?

ABTA agrees with the Commission's analysis as outlined above in our response to Question 3.

The Commission suggests that there has been a disproportionate decline in business traffic at small and medium sized regional airports. ABTA would suggest that this is not necessarily so.

Aviation operates as an ‘aviation mix’ with leisure, business and VFR passengers all flying on the same aircraft on the same routes. The different mix of aviation models all contribute to the UK’s economy: scheduled, charter, no-frills, leisure, business and cargo. The Cebr’s study for ABTA on the economic size and the impact of leisure air travel on the UK economy³ made an unarguable case for the importance of leisure aviation to the UK economy, as a wealth and job creator without which many air routes essential to the business health of the UK would simply not exist.

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

Q7 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?

ABTA agrees with the Commission’s analysis about the financial challenges facing smaller airports. Airlines will wish to see that the demand exists, possibly based on demographics, before they set up a new service. Apart from a wide catchment area, airlines will also want the airport to have an excellent support infrastructure including good surface access by public transport. If the demand does not exist, the airline could subsequently withdraw the service. This typically happens when an airport has offered reduced charges as an incentive to encourage airlines to fly from their airport; at the end of the initial period, the airline might withdraw the service.

Q8 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?

ABTA agrees with the Commission’s factors regarding the development of routes, particularly long-haul, from regional airports. This is particularly so as they become linked to hubs outside the UK e.g. Etihad has recently announced it will operate from Edinburgh to Abu Dhabi in 2015. However, the growth at some regional airports is not all incremental e.g. Bristol has taken traffic from Exeter and Cardiff and the now closed Plymouth airport, due to their close proximity.

The Commission will be aware the SNP has said, should the Scottish Referendum on 18 September result in a ‘yes’ vote, that it would reduce Air Passenger Duty (APD) by 50%. This would have an immediate impact on Newcastle airport as evidenced, for different reasons, in the HMRC research report which explored the potential effects of differential pricing across the UK’s airports.

Q9 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?

³ ABTA report by Cebr – The UK’s leisure aviation economy (July 2013)

ABTA agrees with the Commission's analysis. There are a large number of airports dispersed across the UK, many of which are in clusters, and they are all competing with each other for market share.

Q10 What analysis ought the national or local Government undertake when faced with a potential airport closure?

ABTA believes strongly that any airport, if it is not financially viable, should not be operating unless there are very clear geographical reasons, as is the case with the Scottish Islands and some other geographically isolated parts of Europe as noted by the Commission. The Commission further points out that "duplication of unused or not efficiently used airport infrastructure should be avoided" with which ABTA strongly agrees. The UK Government has generally avoided state aid and the Commission suggests that it is unlikely the Government will pursue this as an option. In our view, to introduce state aid to prop up airports could distort competition.

There are inevitably underlying factors for any airport closure, e.g. Manston airport might have had a reasonable catchment area but other airports nearby are competing for the same passengers and, moreover, it has poor public transport access. The only airline serving the airport moved its services to other nearby airports and has announced that, should Manston reopen, it would not move them back.

Equally, the Scottish Government recently purchased Prestwick airport and is now trying to retain traffic and ensure its future and return to profitability. There is a very real concern that its sole airline, Ryanair, will be attracted to Edinburgh or Glasgow and abandon Prestwick. Ryanair has recently announced that it will drop its Prestwick-Dublin service in favour of more flights from Glasgow.

Q11 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?

ABTA believes strongly that increasing the UK's hub capacity beyond its current constraints, and developing further non-hub capacity where required, is essential to maintaining the UK's competitive position. In order to expand the UK's long-haul connectivity, adequate hub capacity is required. This will attract more visitors and foreign direct investment and will stimulate business and productivity growth, with attendant benefits to employment and economic growth. The economic benefits associated with enhanced hub capacity are much greater than those offered by expanding non-hub capacity alone.

The urgent need for new runway capacity in the South East is not obviated by the existence of geographically dispersed smaller airports in the South East, each competing for market share, although they do offer some valuable specialised capacity.

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

Q12 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?

The two key points which would support or bolster regional airports (although the same arguments apply equally to all airports in the UK) are the reform and reduction of Air Passenger Duty and surface access.

Reform and reduce Air Passenger Duty (APD)

The UK's Air Passenger Duty (APD) is the highest tax on flying anywhere in the world. It is a regressive tax that is inhibiting UK competitiveness; it is making the UK a less attractive destination to invest in and visit; and is making holidays more expensive for hardworking families. ABTA has strongly welcomed the Government's acknowledgment in the 2014 Budget that reducing this damaging duty will boost travel and tourism as well as promote greater UK connectivity. ABTA believes that the change to the bandings announced in the 2014 Budget is an important first step in the process of reforming APD, and we continue to support the case for further changes to ensure levels of APD do not inhibit UK competitiveness. Research by PwC⁴ has shown that reductions in APD would be revenue neutral for the Treasury. ABTA has called for the Government to launch an urgent review of the economic impacts of this tax with a view to further reductions to boost the UK's international competitiveness.

The Commission asks about the impact of dropping bands C and D, as announced in the 2014 Budget. It will take several years to show the true impact as there are other factors which affect traffic to/from these countries e.g. ease and cost of obtaining of a UK visa, lack of slots at London airports.

The Commission has acknowledged the impact the doubling of APD had in early 2007. This was exacerbated for UK domestic routes following the removal of the domestic leg exemption in 2001. For example, a passenger who isn't interlining but self-connecting through a London airport will be paying APD on three sectors (both domestic sectors and the outbound sector) whereas, if the passenger self-connects through Schiphol, they would only pay APD on the outbound sector.

Surface Access

The Commission has identified surface access to airports as being essential. It is an important aspect of the passenger experience and is instrumental in the choice of a passenger's departure airport. A modern integrated transport system can play a decisive role in attracting international investment, offering greater accessibility for passengers with reduced mobility, a growing percentage of the population, and easing surface transport disruptions for the local population near transport hubs. ABTA research⁵ shows that over half (52%) passengers consider they should be able to access their departure airport in under an hour.

⁴ The economic impact of Air Passenger Duty - A study by PwC - February 2013

⁵ Arkenford – August 2013

All airports are committed to improving the number of passengers who access the airport by public transport which ABTA has long supported.

Other

Regional airports are doing their best to attract business and tourism. However, it is inescapable that whatever attraction the regions hold for visitors to the UK, the vast majority want to visit London. Equally, passengers want to fly from their local airport with Heathrow and Gatwick being the local airport for many. London & Partners⁶ recently confirmed that London has been crowned as the most popular tourist destination in the world; this is where passengers want to fly to. Tourism Alliance reported that in 2013 there were 16.8m visitors to London accounting for 51% of the total number of visitors to the UK (32.8m). Overseas visitors spent £11.3bn (54%) in London in 2013 out of total inbound tourism expenditure of £20.8bn⁷.

Regarding the potential of 'state aid' under the Government's Regional Air Connectivity Fund for start-up routes, we await the Government's consultation with interest. It is not clear what effect such financial aid could have. Any definition will have to be carefully worded so as to avoid airlines "churning" one airport for another to present new routes and how these sit alongside the same or similar route already operated by another airline out of that airport.

The Commission asks about broadening the usage of Public Service Obligations (PSO). ABTA sees no need for this as there are available slots at some London airports. It would be unacceptable to introduce PSOs at capacity constrained airports.

Q13 Can respondents suggest means of bringing about positive change in the context of these options? What recommendations could the Commission make in these areas?

ABTA would request that the Commission support the call for an urgent review of the economic impacts of APD with a view to further reductions to boost the UK's international competitiveness.

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

Q14 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?

Q15 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?

⁶ London & Partners press release 9 July 2014 *London crowned world's top tourist destination*

⁷ ONS International Passenger Survey 2013

ABTA understands that Network Rail will consult in the Autumn on rail infrastructure including access to airport, including the speeding up of the Stansted Express.

As mentioned above, all airports are committed to improving surface access and any proposals they might put forward should be properly considered e.g. Heathrow's proposals for a Waterloo link.

Further, as explained in our response to Question 2, a direct link to Heathrow in the first phase of HS2 would also be sensible.

Planning Constraints

Q16 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?

Q17 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?

We await the publication of the discussion paper later this year on issues relating to the delivery of new infrastructure.

Q18 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?

ABTA believes that airports should be allowed to develop to their full capacity without imposing artificial constraints and thus consideration should be given in the near future to lifting the planning caps on Stansted and London City airports.

Commercial Constraints

Q19 Are there any actions stakeholders could take to support airports in mitigating their commercial constraints?

Q20 Are there any examples of best practice in this area?

Airspace constraints

Q21 Are there any medium term airspace developments that could support making best use of capacity, beyond those set out in the Interim Report?

ABTA is disappointed that the Government has not taken the opportunity to introduce the enhanced TEAM proposals and the early morning schedule smoothing at Heathrow, as recommended in the Commission's Interim Report, and has instead postponed a decision until the Commission's final report in summer 2015.

Q22 Are there any innovative long term airspace developments which could provide support beyond those set out in the Interim Report?

Sustainable Aviation⁸, the voluntary coalition of industry partners, continues to work on innovative developments, the latest being a Continuous Descent Operations (CDO) campaign. Whilst CDO will not assist capacity, it will reduce noise, fuel burn and emissions, thus having a positive environmental impact and being of considerable interest to the neighbouring communities.

Sustainable Aviation has successively produced a Carbon Road-Map showing how aviation can increase its Air Traffic Movements by 90% to 2050 without any significant increase in carbon emissions; and a Noise Road-Map also showing how aviation can grow without increasing its noise output. Both these measure are due to newer quieter planes, increasing sustainable fuels uptake and carbon trading, better operational measures and routing of aircraft, and ensuring that land use planning policies are geared to improving where houses, schools and hospitals are built close to airports.

Sustainable Aviation's next initiative will be a Sustainable Fuels Road-Map by end 2014. Sustainable aviation fuels have the potential to play an important role in achieving the UK's ambition to reduce carbon emissions from transport, contributing to EU 2030 climate policy goals and the global aviation target to halve net carbon emissions by 2050. Their July 2014 paper *Fuelling the Future* seeks support from Government to actively support and remove barriers to the development of these new technologies.

Regulatory, Tax or Legal Constraints

Q23 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?

ABTA is not aware of any new data.

Q24 Are there any areas of legal, tax or regulatory constraint, not considered by the Commission in its Interim Report, which merit further review?

ABTA believes it is sensible to retain the regulatory status for Heathrow and Gatwick airports to make them properly accountable to their airline customers and passengers.

Impact of Commission final report

Q25 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?

⁸ <http://www.sustainableaviation.co.uk/>

Thank you for taking our comments into consideration. We would welcome the opportunity to discuss any points raised in our response further with the Commission.

Further information

[REDACTED]

25 July 2014