London (Heathrow) Airline Consultative Committee

Final

Heathrow Airline Community response to the Airport Commission call for evidence regarding the Inner Thames Estuary Feasibility Study.

23 May 2014

Summary

The members of the Heathrow Airline Community, as represented by the two representative organisations (LACC and AOC) do not believe that the Isle of Grain (IoG) proposal is a credible option for inclusion in the Airport Commission’s shortlist of proposals for further scrutiny. The Heathrow Airline Community position is that the IoG is neither affordable, financeable or feasible from an operational and transitional perspective. Furthermore the passenger proposition will remain unattractive and introduces substantial commercial risk into the current business model.

Affordable

The estimates by the Airport Commission of the costs associated with the Isle of Grain proposal appear to be of a realistic and risk adjusted nature. These costs, estimated to vary between £82b and £112b are almost 9 times greater than the current regulated asset value of Heathrow. As Heathrow Airport has some of the highest aeronautical charges in the world, there is a major concern that future operations from the IoG will make the airport charges unsustainable for the vast majority of passengers. These charges could be, as estimated by the Airport Commission in its Interim Report, as much as three times the current level at Heathrow and increase demand risk to such an extent that the whole airport commercial proposition will cease without substantial subsidy from Government.

Financeable

Whilst the airline community has traditionally funded its own infrastructure i.e. runways, taxiways and terminals, the provision of surface access remains the responsibility of Government and local authorities. In line with ICAO policies, the airline community remains opposed to any pre-funding and the risks associated with the financing of any development will need to be borne by the shareholders concerned.

In addition, the surface access costs have been estimated to be around £24b, before any adjustment for risks, and such funds will need to be provided ahead of any airport opening in 2025. In the light of recent events surrounding HS2, the airline community is concerned that the level of political risk regarding the contributions expected from Government, is unacceptably high.

Operationally Feasible

A coastal location for the IoG creates many new operational challenges associated with fog, strong winds, bird strikes, flood risk and additional maintenance costs to prevent from corrosion effects for buildings and aircraft due to the salty environment.

Bird strikes can represent a major safety risk as witnessed by the forced landing of US Air flight 1549 in the Hudson River in 2009. As the proposed IoG site lies in a major internationally significant protected area for bird migration, then major safely risk assessment and mitigation measures will need to be adopted.

Weather related disruption is also a concern particularly fog and strong winds which has a higher incidence at coastal sites. Fog and strong winds do increase the safety risk which is mitigated by reduced capacity and special operating procedures.

Related to the operational feasibility is the willingness of staff, currently located at Heathrow, to move to a new airport noting that the scale of any migration is unprecedented in any modern urban planning scenario. Also the attractiveness of IoG for new labor might even be at risk as it is doubtful that people will commute to remote areas. Similarly the costs of such a move not yet been quantified but based on estimates provided by a base carrier, a realistic estimate of the cost of airline employee relocation compensation alone is likely to be well over £100m.

Commercial

Whilst each airline will need to analyse its own commercial position with respect to the IoG proposal, several facts are becoming to emerge:

- The IoG is a remote location in relation to where passengers and businesses that use hub airline services live in the Thames Valley and neighbouring areas. Much recent research has emphasized the importance placed by passengers on airports accessibility and connectivity. Many types of passenger i.e. the business sector are time sensitive and will rely on convenient transport links which in the IoG plan do not exist.

- Assuming LHR closes to enable an IoG hub airport some airlines that are less reliant on connecting passenger feed at LHR today will have the option to move services to other London airports that are more competitively located and priced versus the IoG. Airports such as LGW, LTN and STN would become more competitive options where LHR is replaced by the IoG in the London airport system. This would reduce demand for an IoG hub and increase the airport charges burden on airlines that would have to move to the IoG, e.g. home hub carriers and their partner airlines.

- Any transition arrangements to a new airport, very challenging from a planning perspective, would become increasingly unattractive from a customer proposition as investment declines in one and uncertainty prevails with respect to service standards at the second.
- Higher airport charges will result in the airport being less competitive against other hubs/airports and hamper airlines' ability to invest in their own business e.g. fleet upgrades
- Price sensitive short haul flights will be particularly affected and reduced demand will feed through into long haul operations
- The overall price proposition will decline as alternative European airports, with space capacity, will soak up demand and further damaging the case for additional UK hub capacity. Under this scenario there is a major risk that a 4 runway configuration in the IoG will remain underutilised for many years if not longer.

Some recent examples regarding poor analysis of the business proposition can be found In Canada and Spain:

In building Mirabel International airport in 1975, the Canadian Federal Government envisaged it not only as a major national and global transportation hub but also as a key economic player that would help cement Montreal's international appeal. Expected to handle 17 million people by 1985 and 50m by 2000, Mirabel processed only 2.5 million in 1988 and in 2004 the airport ceased commercial operations entirely. Spain's Ciudad Real Airport in Castile La Mancha, was opened in 2008 as a PPP though the financing was heavily weighted towards the private sector, and was the first with private capital in Spain. It was built with a budget of EUR1.1 billion but has been left without any commercial services following the withdrawal of the low cost carrier Vueling from the market.

Conclusion

We note that there are several white elephant airports around the world, where good intentions rather than the market permitted airport construction to proceed. However these developments did not deliver the benefits because they were not commercially viable and the airlines' customers did not wish to use them. This confirms that a robust business case is fundamental for the success of any new airport development.

The three major alliances, operating at Heathrow namely Star, oneworld and Skyteam, are agreed that the IoG proposal is unsustainable as a business proposition and see no merit in pursuing this option any further.

To conclude, the Heathrow Airline Community is not persuaded that the IoG proposal is either a serious or a credible option for the Airline Commission to consider or evaluate, any further, the associated business case. Consequently we recommend that this option is dismissed.