

GTMC

Davies Commission Submission 2015

Foreword

Our perspective is simple; we want the corporate traveller to get to the place they want to do business safely, directly and efficiently.

The GTMC's members are critical to the economic prosperity of the UK through their role connecting business people into the markets that are the drivers of global growth. Yet they are held back in doing so by the self-imposed disadvantage that comes with the lack of capacity at our hub airport. It is a situation that cannot be allowed to continue.

Repeated surveys of business travellers in the UK have indicated that the problem is real. Too many are unable to connect directly from the UK to where they wish to do business and are forced to use European or even Middle East hubs instead. For travellers outside of the South East this is even more pronounced as they struggle to access Heathrow and the markets it connects to.

British business people need a world class network, into new as well as traditional markets, and they need those links to be frequent. We need the infrastructure that will enable this and, ultimately, we need to stop British business competing in a global market with one arm tied behind its back.

[REDACTED]

[REDACTED]

Executive Summary

The South East Airport Commission's Report and the response from the next Government make up perhaps the most important decision of the next Parliament. As an island nation our capacity to trade in a global age is intrinsically tied up in our connectivity.

The primary purpose of strategic infrastructure decisions and spend should be underpinning economic growth and ensuring that this growth benefits the whole of the UK. To this extent we have been most interested in the impact on the economy in the Commission's latest Business Case and Sustainability Assessment.

If the UK is to select a single location for expanded airport capacity it is important that we select that which will have the greatest economic impact. This impact will be best achieved by:

- Locating capacity where there is greatest business passenger demand.
- Adding capacity to an existing long-haul network.
- Using competition to offer value for money.

Heathrow is our only hub airport and remains the primary choice for frequent business travellers that need to access long-haul destinations. The range and frequency that a hub airport provides is absolutely vital to the demands of our members' clients and expansion at the hub should be the UK Government's first priority.

Our members have been vocal in their warnings that the UK is becoming less attractive than rival economies for investment and less useful as a base for our own industries because we are falling increasingly further behind in the connectivity race.

While traditional business destinations remain well served from the UK the story is nowhere near as good in those emerging markets that will make up the bulk of global growth in the coming decades, for example nearby European hubs easily outstrip the UK in terms of routes into mainland China and have higher trade statistics as a result. The potential for the additional capacity to address this shortfall should be key to the Commission's conclusions.

Of continued concern is the imbalance in the UK economy between the South East/London and the other UK regions. The capacity problem at Heathrow has meant that UK regional connections into the hub have been sacrificed for high-yield long-haul routes. Such connections are vital for regional economies and it is iniquitous if the benefits of a world class hub are denied to whole swathes of the country. Again this is something that we would wish the Commission to consider when coming to its final conclusions.

We should also be aware that business travel, while an investment, is also something that benefits from competitive pricing. The recent announcement from easyjet that they would wish to fly from an expanded Heathrow is indicative of the type of market reaction that having additional capacity would supply and the competitive pressure that would reduce the costs associated with business travel. However, the capacity at the hub is finite and any increase would need to find a balance between expanding the long-haul network and enabling low-cost short-haul providers to compete on existing routes.

Our final point is to emphasise that this response answers the specific question set by the Commission. The discussion is about a single runway to be added in the South East and the perspective of the business traveller dictates that the priority should be adding this to the hub. However, we remain concerned that the Commission's projections envisage an expanded hub reaching capacity again, in some scenarios as early as 2030, and in this light we remain convinced that the Government should not stand in the way of Gatwick expanding as well as Heathrow if it desires to do so. We have welcomed its efforts to expand its network into short-haul business destinations and will continue to support its work in this area.

The GTMC

The GTMC is the UK's leading professional body for travel management companies (TMCs). These TMCs represent over 80% of managed corporate travel.

Our members work on behalf of corporates to facilitate the international movements of the business people who "do the deals" that will underpin the UK economy's growth. As such we have a keen sense of:

- 1) The priorities for corporates in terms of connectivity; and

- 2) The perspective of those business people actually travelling internationally.

Where applicable the GTMC has set out the data that underpins the perspective of both the corporates and business travellers.

This includes:

- A 2013 survey of 1000+ people in the South East of England who travelled internationally on business six or more times a year, 37% of who travelled 13 times or more.
- A 2014 bespoke survey of 1039 people who travelled internationally three or more time per year on business from airports in the regions, 14% of which travelled 13 times or more.
- A 2015 survey of 1000 business travellers from across the whole of the UK who travelled three or more times per year.

The Business Traveller

The GTMC and its members work daily with travellers deciding how to get to the places they wish to do business. As a result they have developed a detailed sense of the priorities of a business traveller when deciding on mode or specific operator. In addition to this the GTMC has commissioned several polls which set out in clear terms the drivers of how they get from A to B.

It must be remembered that many business travellers, certainly those within corporates that employ a TMC, will have a travel policy that narrows the range of options. This is in essence the formal reflection of the attitude of the business to travel. Within this range the individual preferences of the traveller kick in and allow them to shape their journey.

Alongside this we have SMEs and the self-employed who tend to have a less formalised approach to controlling travel options but for whom making the right decisions on travel can have a more fundamental impact on profit.

Across these groups we see the following priorities:

- **Cost** – travel needs to provide value for money.
- **Convenience and Speed** – the traveller needs to be able to get to where they need to do business with minimum disruption and as quickly as possible.
- **Productivity** – the traveller needs to be as productive as possible through that journey.

It is by these criteria that the GTMC judges the efficacy of UK transport and which have a significant impact on how competitive UK plc can be.

Consultation Question 1

What conclusions, if any, do you draw in respect of the three short-listed options? In answering this question please take into account the Commission's consultation documents and any other information you consider relevant.

The GTMC's conclusions fall into the following categories:

- Long-haul Demand
- UK Connectivity to New Markets
- Passenger Experience
- Benefits of Competition

The observations contained are drawn from primarily from the Commission's assessments and supporting evidence from the GTMC and other stakeholders.

Long-Haul Demand

The Commission's assessments openly recognise that "long-haul routes are currently predominantly served from Heathrow and to a limited extent from Gatwick" and this is borne out in the GTMC's own experience and data.

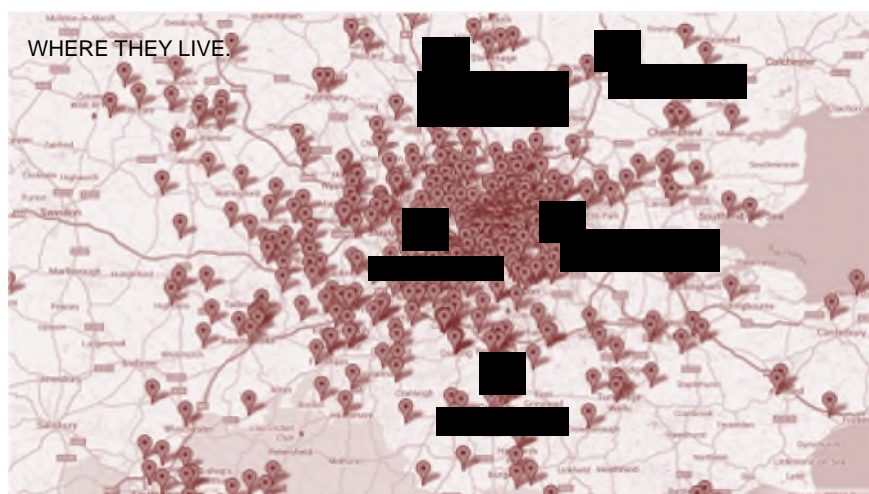
The model of legacy airlines is such that it is their long-haul routes that drive their profitability, with their short haul operations lagging some way behind (something corroborated by the new aircraft order books being predominantly focused on investing in new fleets of long-haul craft). For many of these long-haul routes it is the business travel market and their dominance of premium cabin tickets that ensures profitability.

While there are long haul leisure routes these are generally differently configured with a smaller premium offering. For example Virgin's long haul flights at Gatwick use aircraft configured differently from their Heathrow operation. The hub airport model clearly offers airlines running these routes both the domestic point-to-point demand and the connections from international flights that deliver the premium uptake that make such routes (and their frequency) profitable.

The GTMC has surveyed exactly this high value business passenger segment to understand their attitudes to travel and the key questions around aviation capacity. The primary point is that these travellers are more prevalent in the South East than the rest of the UK – indeed our process of participant selection for our surveys found that per head of population twice as many people in the London/South East are flying six times or more per year on international business travel than is the case in the regions. This is intrinsically linked with the fact that the majority of the UK's top 300 businesses have HQs within a 25 mile radius of the UK's major hub airport.

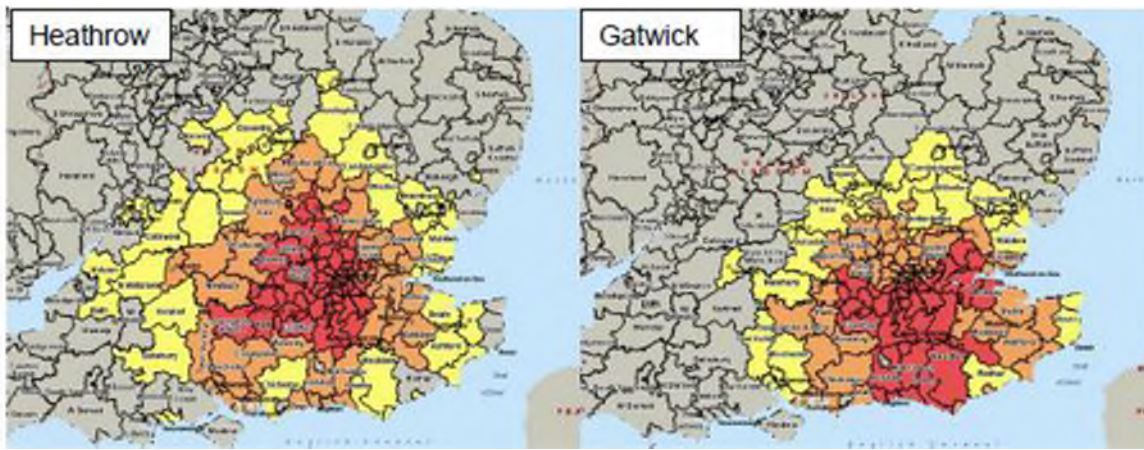
When surveying these passengers (including 37% who travel 13 times or more) a number of observations stood out. Firstly they had a pattern of travel centred on Heathrow. When asked in 2013 which airports they used most often for international business travel 81% confirmed that their journeys focused on the UK's hub airport. The second observation is that while direct flights ultimately dictated their choice of airport this was closely followed by distance from home to the airport. The third observation was that they tend to travel to airports by car rather than public transport, particularly if not living within the inner boroughs of London.

As part of the process of understanding the high value customer the home addresses of this sample were plotted against the London and South East airports (set out below) and showed a clear tendency to live in close reaching distance of the hub airport.



(Note: The location of residents in South East and London travelling internationally on business at least 6 times a year. Source: GTMC's 2013 South East Air Traveller survey)

Heathrow has the largest catchment of London's six airports which is in part a reflection of its location, the infrastructure that serves it and the fact that the catchment area for an airport's long-haul flights is larger than for short-haul flight (the CAA suggests that the areas within a two hour drive of an airport make up its catchment area for long-haul flights). The two-hour drive time catchment for Heathrow is 25% larger than Gatwick's and contains an additional 6 million people. The map below illustrates the difference:



Note: the red areas are 60 minute drive time, orange 90 minutes and yellow 120 minutes.

Source: CAA, Catchment Area Analysis Working Paper, 2011

We believe it is important to recognise where the demand for long haul resides, both in terms of high value business travellers and in terms of business HQs. It is these customers (and connecting passengers) that underpin the profits of such routes and ultimately influence the scope of the network and the frequency of flights upon it.

Key GTMC data includes:

- Our 2013 survey of South East/London business people who travel internationally six times or more per year saw almost 80% indicate that it was critically or very important for airport capacity to be increased in the South East.
- The same sample when asked to pick their single preferred option for expansion saw Heathrow receive 51% of support, Gatwick on 20% and a new Thames Estuary Airport on 17%.
- In the 2013 survey respondents were asked to indicate which element of the journey to the airport was most important with 54% indicating distance from home, this was most closely followed by good public transport links to the airport on 24% and good road connections on 14%.
- Our 2015 survey asked respondents from across the UK which was their preferred option for the increase of aviation capacity in the South East saw 36% back the expansion of Heathrow and 25% support the idea of both Heathrow and Gatwick being expanded.

UK Connectivity To New Markets

From a business travel perspective the issue is that too many travellers are not able to get to the places they wish to do business easily or efficiently. This is most forcefully felt in terms of connectivity to emerging markets and we wish to see additional capacity that will support routes to these locations.

The most alarming reading in the assessments was the stark impact of “do nothing”. Far from the UK maintaining its hub status the scenario sets out a decline in Heathrow’s status as a global hub airport. The lack of scope for ATM numbers coupled with increased passenger demand from a growing economy and population will lead to a thickening of the most popular (and profitable) routes with overall destination numbers at the airport declining markedly from roughly 180 currently to 138-158 in 2050.

This would mean UK business travellers facing a contraction in the network at exactly the time that they are looking for the opposite.

Indeed we are already lagging behind. The world economy is rapidly changing yet our connectivity remains reflective of the old reality. McKinsey global growth projections to 2025 indicate that 80% of that growth will come from the Americas and Asia Pacific with a corresponding drop in Europe’s share of Global GDP in that period from 19% to 13%.

Moreover recent Heathrow research revealed the top 24 cities globally by Gross Metropolitan Product that are not directly linked by Heathrow but are served by at least one EU hub consist of the following: Pittsburgh, Hartford, Memphis, San Antonio, Monterrey, Bogota, Porto Alegre, Campinas, Lima, Belo Horizonte, Santiago, Ankara, Chengdu, Chongqing, Shenzhen, Wuhan, Nanjing, Manila, Shenyang, Hangzhou, Osaka, Nagoya, Jakarta and Perth.

If we take the example of China the point becomes marked. The UK has 38 weekly flights to China while Paris CDG has 63 and Frankfurt 57. This disparity is carried over to air trade statistics which show Heathrow enjoying €2.8bn while Paris CDG has €4.7bn and Frankfurt a huge €17.0bn.

The GTMC recognises that hope in resolving this gap in connectivity comes in a number of the Commission's scenarios that see the extra capacity delivered at the hub airport increasing destinations and topping 200. With a number of scenarios indicating strong global growth and a relative decline in European markets it is expected that this increase will feature significant numbers of long-haul destinations.

It is the expectation of the GTMC that the additional capacity and expansion of routes in the network will lead to growth of trade links and we welcome the modelling undertaken by the Commission which estimates that "from scheme opening in 2026 to the late 2030s GDP impacts rise rapidly, mainly driven by productivity impacts associated with improved trade links allowing firms to access larger markets".

By contrast the assessments of Gatwick's additional runway do not indicate a significant increase in connections to emerging growth markets. While the numbers of routes are higher than at Heathrow under the majority of scenarios it is the type of route that is of interest to the business traveller.

Doubts about whether the long haul routes to new markets will emerge come not only from the patterns associated with the high-value business traveller outlined in the section above but also recent examples of airlines withdrawing long haul services from Gatwick. Services to Seoul and Beijing were opened alongside Heathrow routes in 2012, but were closed in 2013 and 2014. Meanwhile we have seen Vietnam Airways services move from Gatwick to Heathrow at the start of 2015. In contrast Heathrow has said that 30 airlines would like to enter the airport or add additional services.

The Commission's assessment suggests that the economic and connectivity benefits of an additional runway at Gatwick only approach those of Heathrow if long-haul low-cost airlines provide a significant number of routes at Gatwick. However there are significant doubts as to whether this model would work, indeed easyjet have been clear that they do not think it is a viable market for low-cost operators to enter, primarily because their traditional methods of under-cutting incumbent legacy carriers on short haul routes – increasing passenger loads, fuel efficiency from new craft or seat densities – cannot be applied.

Our own findings support this theme by illustrating that a large proportion of business travellers cannot get directly to the place they wish to business and that by freeing them of these constraints they can generate business that drives GDP growth.

Key GTMC data includes:

- Our 2015 survey showed that 23% of business travellers felt that the UK does not provide sufficient capacity and all the necessary routes required.
- Our 2013 survey of business travellers in the South East and London who travelled 6 or more times a year on business by air found that a quarter reported having to use European hubs to reach destinations.
- Separate 2012 surveys and analysis of GTMC members' data on the end destinations seeing the greatest amount of UK business traffic via EU hubs showed the following top ten cities: Bogota, Brasilia, Chengdu, Dammam, Douala, Lima, Panama City, Phuket, Santiago and Shenzhen. The majority of which are in the Americas or Asia Pacific.

Passenger Experience

Passenger experience for the business traveller is primarily focused around convenience, speed and productivity. While the first concern is direct flights from the UK to their destination they are also looking for minimum disruption while they make their journey.

The assessments of passenger experience in the Commission's publications rightly focused on terminal improvements, the suite of existing surface access options and the proposed improvements to these that are forthcoming.

Heathrow has a clear advantage here in terms of its location allowing as it does business travellers from London, South East, Midlands, South West and Wales relatively easy surface access by car as the airport sits near to the M4 and M25. This remains key due to the continued tendency for business travellers to travel direct from their homes to airports for flights.

In terms of the rail infrastructure serving the hub airport we recognise the value of the scheduled refurbished Piccadilly line and its new rolling stock, Crossrail and its transformative impact on linking the City and East London/London Gateway with Heathrow, western access that avoids having to go into Paddington and the High Speed 2 interchange at Old Oak Common. This rail access alone provides exceptional surface connectivity with limited interchanges that will allow business travellers to be productive on their journey. These schemes are not pipe dreams but projects that are planned and budgeted for and in some cases nearing completion within the next five years.

The assessment of Gatwick also highlights positive infrastructure improvements, most notably the impact of Thameslink and the more frequent services via Victoria, London Bridge and Farringdon (with its Crossrail interchange) all of which will be a benefit travelling through London. However, the lack of direct connectivity with regions other than the south dictate that journeys by rail will include interchanges that impact upon the time business travellers can work through their journey.

Key GTMC data includes:

- In the 2013 survey respondents were asked to indicate which element of the journey to the airport was most important with 54% indicating distance from home, this was most closely followed by good public transport links to the airport on 24% and good road connections on 14%.
- In the 2015 survey respondents were asked how they typically got to the airport for flights in connection with business with trains/underground and by car both receiving 56%.

Benefits Of Competition

There is no doubt that from the business travel perspective competition has benefits and the assessments of airline reactions to increased capacity under a number scenarios have given food for thought – in particular the trade-off between fare decreases, service frequency and long-haul network growth.

The low-cost market is the most commonly used example of the positive impact of competition in the aviation industry. It is a truism that where low-cost airlines have entered the market there has been a corresponding drop in fare prices overall. The GTMC would expect that the entry of low cost airlines into Heathrow would add a level of competition to the short-haul network that would drive down fare prices which would ultimately lead to the business travel budgets of UK corporates going further. We note with interest the fact that easyjet believe their model could succeed at Heathrow even with higher charges associated with capacity increase works.

The Commission has set out potential airline response scenarios that include a low-cost long-haul model emerging and the deflationary impact that this may have on fares. However we acknowledge the reluctance of the sector to endorse these plans for a number of reasons and instead note that they stress the impact that they could have through competition on short-haul routes.

The benefits of competition also extend to frequency of connections. The first hint of this comes from easyjet's recent outline of the services it could put into an expanded Heathrow. While this includes 19 un-served short-haul destinations it also sets out around 50 services on existing routes. For business travellers using such services (our own data, and easyjet's claims that approaching 20% of passengers are flying on business, suggest that they will) there will be appreciable benefits in terms of frequency of flights that provide them with extra flexibility as well as a decrease in the cost of flying from Heathrow.

The expansion of short-haul into Heathrow is also of critical importance to regional economies. The GTMC strongly believes that the hub airport has an important part to play in the re-balancing of the UK economy, primarily by ensuring that regional business travellers have easy access to international markets. However over the last 20 years the number of routes into Heathrow from domestic airports around the UK has fallen

dramatically with only seven UK airports served. As a result large parts of Britain are now without access to the UK's main international airport and the links to overseas markets that it can provide.

While the main criticism has been about the reduction in routes connecting regions directly to Heathrow the GTMC believes that question marks also appear around the quality of the regional routes that remain. Perhaps the most telling illustrative point is that the Leeds Enterprise Partnership on its own website boasts of its connectivity as a reason to locate and invest in and charts its connections to Paris CDG, Amsterdam, Brussels, Barcelona, Milan, Belfast, Edinburgh, Glasgow and Dublin - yet makes no mention of Heathrow at all.

The Commission's analysis and airline response scenarios acknowledge that the growth in point-to-point services in Heathrow would lead to an increase in domestic connectivity between regional airports and the UK's hub airport. This is borne out again by easyjet's indicative network for an expanded Heathrow which suggests that new routes would go into Inverness, Isle of Man and Jersey with competing routes going into Belfast, Edinburgh, Glasgow and Aberdeen.

We do however sound a note of caution. The most common complaint of high-value business travellers is not that fares from the hub airport are too high – it is that they cannot get to where they need to do business directly.

The modelling undertaken by the Commission has indicated that the pent-up demand for additional capacity could see an expanded Heathrow reaching capacity again by 2030. A number of the airline response scenarios have indicated that this pick-up may come from the short-haul point-to-point growth that for a time can be absorbed alongside expansion of the long-haul network. However as we reach 2030 and beyond the modelling suggests that we will see yet again airlines being forced to choose between routes leading to a likely thickening of services on the most profitable routes and total network coverage shrinking.

Conversely the connectivity benefits are likely to be greatest if the hub carrier takes up the new capacity as they would focus on expanding the long-haul network rather than thickening routes with competing services. In this sense the absence of competition leads to the greatest expansion of new long-haul growth markets. We need to consider how, if Government can only conceive of allowing only a single additional runway in the South East, we balance these outcomes.

Key GTMC data includes:

- 90% of respondents to our 2015 survey claimed that it was important for new capacity to serve as a hub for the whole of the UK with frequent connecting flights to the UK regions.
- The GTMC regional business traveller survey data supports this by showing that the major reason (34%) that a business traveller will use a non-UK hub instead of Heathrow is due to more convenient flight times.
- The GTMC 2013 survey of business travellers in the South East and London found that when asked for the single most important factor to them when flying on business saw cost ranked third (on 18%) behind convenience of airport and service.
- The sample when asked for the ultimate factors determining the airport they used saw the following ranking: Direct flights, personal preference, convenience and cost.
- Our own data (most recently in 2015) show that the business traveller will embrace this competition when it arrives. While we tend to see that a large proportion of business travellers will travel with flag carriers (49%) 56% indicate that they would consider travelling by low-cost carrier if they flew directly to destinations they required.
- 58% of business travellers in our 2015 survey expected there to be continued growth in the low-cost sector with 27% predicting this growth to be “great”.