Item No. 8

Report to Aviation Forum
One hub or none – The case for a single UK hub airport

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PURPOSE OF REPORT

The purpose of this Briefing Note is to provide an outline of the key elements of the recent case/position document issued by Heathrow Airport Limited (HAL) in November 2012; *'One hub or none: The case for a single UK hub airport'*

The Aviation Forum is being asked to consider the key messages within this document, within the context of the independent commission having been assembled and led by Sir Howard Davis to consider the issue of airport capacity within the UK.

The position and views of borough residents will need to be considered before a response can be made to the commission, subsequent to the recent release of guidance (February 2013) on the mechanisms by which evidence and proposals can be submitted to the Airports Commission

BACKGOUND INFORMATION

Airlines and airport operators are pushing for more airport capacity, particularly in the south-east. There is not however a consensus about how this capacity can be achieved, with views ranging from plans for a Thames Estuary Airport, to the further expansion of Heathrow or one of the other major airports.

The Davies Commission has been tasked with addressing this issue of airport capacity, balanced with the environmental factors that it presents (including noise and climate change) which all need to be considered. The Commission will publish its interim report by the end of 2013 and then a full report in summer 2015 – after the next general election.

Heathrow Position Statement

In the first batch of evidence submitted to the Davies Commission by HAL in November 2012, the airport sets out the case for utilising Heathrow as the UK's aviation hub.

A copy of the full document is available at:
http://mediacentre.heathrowairport.com/Press-releases/One-hub-or-none-390.aspx https://www.gov.uk/government/publications.

The *'one hub or none'* document aims to address a number of factors, namely; the definition of a hub airport, the socio-economic value to the UK, the type of hub required and the hub demands predicted for the future of the UKs aviation industry.

Acting as an aviation hub, an airport can allow local passengers to combine with transfer passengers, reportedly allowing airlines to fly to more destinations more frequently. HAL suggests that through using an aviation hub, British businesses would be able to better connect with global growth markets that other non-hub airports cannot reach.

The paper goes further to state that constraints at Heathrow (currently running at over 99% capacity) and the limit of 480,000 flights per year means the airport is unable to compete with other European hub airports such as Paris, Frankfurt, Madrid and Amsterdam which have runway capacity to serve around 700,000 flights per year. HAL indicate that this lack of capacity is resulting in the UK being cut off from growth, especially in the emerging markets.

Other benefits of a Heathrow Hub, in addition to economic growth through increased trade with the global markets explored in the paper, include:

- Benefits to local UK businesses through greater connectivity
- More frequent, increased direct travel opportunities without the need for connections.
- Increased employment opportunities in the area
- Attracting more tourists to the UK, via direct visitors and those on 'stop-overs'
- Potential CO_2 reduction (globally) through the efficient use of larger aircraft rather than existing short-haul connecting flights to European hubs.

The paper continues and explores the possibility of either a dual or split hub option (between Gatwick & Heathrow). However HAL dismisses these ideas as not being viable, owing to both the inadequate profitability of short-haul connections and poor connection times between the two airports being too long (when compared to the minimum 45min connect time stipulated at Amsterdam).

Owing to the reported non-viability of a two-hub strategy for the UK, HAL stipulate the only choice remaining is that of '"one hub or none" strategy, with a single airport operating as a UK hub. They then present three options for the commission to consider.

Choice presented by HAL to Davies Commission

a) Do nothing
b) Add additional capacity at Heathrow
c) Close Heathrow & replace with a new hub airport

In order to make a decision as to which of these options to consider, HAL recommends 12 key criteria by which hub airport capacity in the UK could be assessed:

1) Will it result in a competitive hub airport?
2) Is it commercially deliverable?
3) Will it deliver sufficient hub capacity?
4) Will it be able to operate safely?
5) What are the economic benefits?
6) How quickly can it be delivered?
7) What will the environmental impacts be?
8) What will the noise impacts be?
9) How attractive will the location be for passengers?
10) What new road/rail links will be required?
11) What will the land use and urban development impacts be?
12) How would options involving replacing Heathrow manage the transition?

Wards Affected

Given the proximity and likely impact (mainly noise) that an increase in aircraft numbers would have when arriving and departing from a proposed Heathrow Hub - most areas of the Borough will be affected by the outcome of the consultation process but particularly those of Bray, Castle Without, Park, Clewer East, Clewer North, Clewer South, Old Windsor, Datchet, Eton and Castle, Horton and Wraysbury

Discussion

The impact of a single UK hub at Heathrow would be extensive within the borough and as such RBWM should consider its own submission to the Davies Commission carefully. This should be done with regard to the recent supporting documentation produced by the Airports Commission:

a) **Guidance Document 01:** Submitting evidence and proposals to the Airports Commission (Feb 2013) - https://www.gov.uk/government/publications/submitting-evidence-and-proposals-to-the-airports-commission
b) **Discussion Paper 01:** Aviation Demand Forecasting - https://www.gov.uk/government/publications/discussion-paper-on-aviation-demand-forecasting

The Aviation Forum comments are sought

Appendix 1: Executive Summary – *'One hub or none – The case for a single UK hub airport.*

One hub or none

The case for a single UK hub airport

November 2012

Heathrow

Making every journey better

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1 Introduction

We are living through an era of profound change. The balance of the global economy is shifting to the 'emerging markets' of the world: places like China, India, Brazil, Russia, Mexico, South Korea, Indonesia and Turkey whose populations and economies are growing rapidly.

At the same time the UK's economy is burdened by debt and faces the prospect of weak economic growth for years to come. Government is focussing on paying debt back, which will mean less government spending, and in turn will make economic recovery even more difficult.

So Britain today is faced with some tough choices about how best to structure its economy for the future. We have to decide the best strategy to create employment and prosperity in the UK. In a world in which Britain has no automatic right to be at the top table and can no longer rely on cheap credit, we must determine the strengths it should develop to rehabilitate the economy.

Our history as an island trading nation should give us a clue. We do well in specialist industries that require global mobility - businesses that either need to meet clients around the world, or attract talent from across the globe. Part of our competitive advantage is rooted in the UK having had the world's largest port or airport on its shores for the past 350 years. This has meant that the world travelled through the UK to reach its final destination. Consequently London has become the centre of global service industries like insurance, law and finance.

350 years of history will end sometime in the next decade when the UK's hub airport, Heathrow, is overtaken by Paris, Amsterdam, Frankfurt or Dubai as the busiest airport for international passengers. Each of these airports is a direct competitor to the UK's hub. Heathrow's comparative decline will make the UK a less attractive place to do business, as over time we increasingly fail to offer the number and range of destinations businesses need. Worse still, Heathrow is doing particularly badly on routes to the new emerging markets that are so important for growth. Heathrow won't have added any more flights by the time it is overtaken. It can't. It is full, with no spare runway capacity and no plans approved for a new runway.

In setting up its Airports Commission, chaired by Sir Howard Davies, the Government has recognised that maintaining the UK's aviation hub status is critical to future economic success. Jobs and growth in the UK depend on international connectivity.

This document addresses the following questions: What is a hub and why is it different from other airports? What is the value of a hub airport to the UK? Is it possible to have two hubs, or to split a hub over more than one location? And what type of hub will the UK need in future?

It concludes, by reference to international experience, that only a single airport can operate as a successful hub in the UK and that the choice for Britain is not between two hubs or one, but between one hub or none.

Ultimately, the Government has three options: do nothing and let the UK fall behind; add additional capacity at Heathrow; or close Heathrow and replace it with a new hub airport.

We suggest 12 criteria which the Davies' Commission could use to assess the pros and cons of each option for creating new hub capacity. It should be possible to build consensus on what the UK requires from its hub airport so that every option can be assessed on its merits.

We would like the Davies' Commission to work as quickly as it can, but it is more important to make a considered decision than a quick decision. The UK has the opportunity to make the right decision, once. If we make the wrong decision now it will be too late to change: the UK will have lost its position as a global hub for good.

None of the options for additional airport capacity is easy. Every choice, including doing nothing, has its consequences. However a clear positive decision would stimulate economic growth, create jobs, and help secure Britain's competitiveness in a changing world.

Colin Matthews

Colin Matthews
Chief Executive, Heathrow

2 Executive Summary

2.1 What is a hub airport?

A hub airport is an airport where local passengers combine with transfer passengers to allow airlines to fly to more destinations more frequently than could be supported by local demand alone. Put simply, it is the most efficient way of connecting many different destinations. Typically, passengers from short-haul flights combine with passengers from the airport's local area to fill long-haul aircraft. Transfer passengers are essential for a hub airport to serve many destinations. They allow the UK to connect to countries where it couldn't sustain a direct daily flight itself. These flights support trade, jobs and economic growth.

The number of direct passengers varies on each route by time of day, day of the week and month. Airlines cannot adjust the aircraft size each day. Instead, having sold seats to as many direct passengers as possible, they fill the rest of the aircraft with transfer traffic. The key aspect of transfer traffic is its variability. The demand from passengers transferring through London is highly elastic. A passenger travelling, say, from Lyon to New York faces a wide choice of flights connecting through London, Paris, Frankfurt, Amsterdam and Madrid, and a small price differential influences strongly the choice of route. Without transfer traffic, load factors would be lower and many routes would not be viable.

We recognise the importance of hub networks in other walks of life. Mail sorting offices, telephone exchanges, and supermarket distribution centres are examples which show that the best way of connecting two points efficiently is via a central hub.

As our only international hub airport, Heathrow supports flights that cannot be operated profitably from any other UK airport and connects British businesses with the growth markets other non-hub airports cannot reach. Heathrow serves 75 direct destinations world-wide that are not served by any other UK airport and handles more than 80% of all long haul passengers that come to the UK.

2.2 The value of a hub airport to the UK

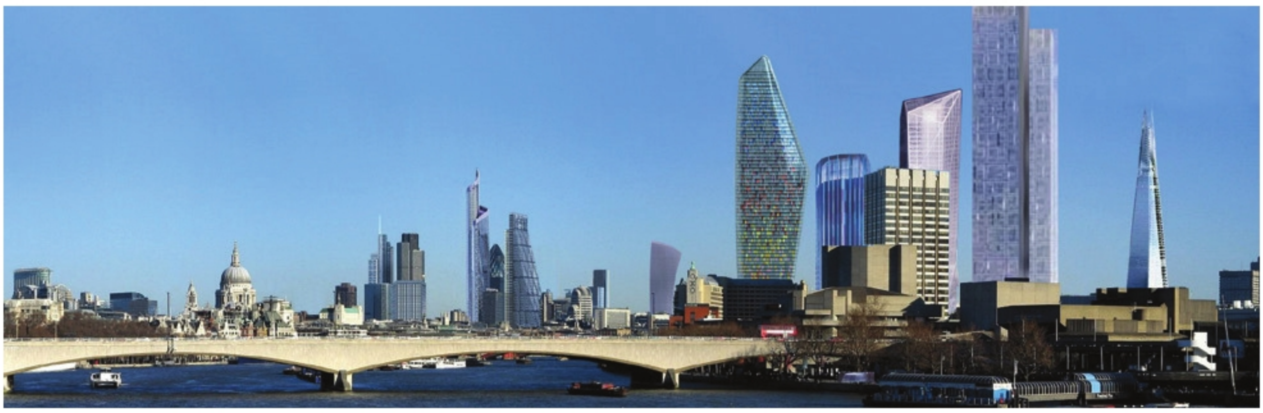
International connectivity through a hub airport supports economic growth. UK businesses trade 20 times more with emerging markets with daily flights than those with less frequent or no direct service. In addition, the rate of growth in UK trade is substantially lower where daily flight connections with Heathrow are not available.

Yet constraints at Heathrow - which is running at over 99% capacity - mean that the UK is unable to serve growing international demand. Heathrow is permitted 480,000 flights a year. All four of Heathrow's competitor European hub airports - Paris, Frankfurt, Madrid and Amsterdam - have enough runway capacity to serve around 700,000 flights per year.

As a consequence Heathrow is slipping out of the Premier League of Europe's international hub airports. Paris and Frankfurt will push Heathrow into third place in Europe within the next ten years. They already boast around 2,200 more flights to mainland China than Heathrow each year. There are 26 emerging market destinations with daily flights from other European hubs that are not served daily from Heathrow: including destinations such as Manila, Lima, and Jakarta.

The UK is cutting itself off from growth. We could be missing out on up to £14 billion per year in lost trade due to poor connections. This lack of runway capacity has particularly hurt regional growth in the UK by pushing out aircraft serving regional routes.

As well as its wider contribution to the UK's connectivity and economic growth, Heathrow itself directly employs 76,500 people, making it one of the largest single-site employers in the UK. Taking into account the hotel, catering and transport companies based at Heathrow, there are a total of 114,000 direct and indirect jobs at the airport - 22% of the jobs in the local area.



2 Executive summary

2.3 Why aren't two hubs better than one?

Some have suggested the answer to the aviation challenge the UK faces is not to build new capacity at Heathrow, but to have two hubs - either through a 'dual hub' with another hub airport operating independently of Heathrow, or a 'split hub' with Heathrow connected to another airport, such as Gatwick, via a rail link. Neither of these options is a credible solution.

History shows that a dual hub in the UK does not work. Attempts to create a dual hub between Heathrow and Gatwick were tried in the 1970s and 1990s but both ended in failure because airlines were attracted back to the main Heathrow hub where they could maximise transfer opportunities. Those who promote New York as an example of a city that has more than one large airport ignore the fact that New York has three large US network airlines that operate from the city, whereas the UK only has one major network airline in British Airways.

The split hub option "Heathwick" is not viable. Connection times would be too long for transfer passengers, and it would be prohibitively expensive to create and operate. Not only would the Government need to fund and build an expensive and complex rail connection. It would also mean Heathrow's minimum connect time of 60 minutes would extend to at least 100 minutes. This wouldn't be competitive with other European hubs, such as Amsterdam which has a 45 minute minimum connect time.

2.4 The choice

There is a trend of consolidation in the airline industry. Following recent mergers there are just three major network airline businesses in Europe: IAG (which owns British Airways and Iberia), Lufthansa, and Air France-KLM. Yet there are five major hub airports in Europe: Heathrow, Amsterdam, Paris, Frankfurt and Madrid. The most efficient business model would be consolidation around just three hubs. The merger with Iberia gives British Airways an alternative European hub in Madrid at which to grow.

The choice for the UK is not between two hubs or one, but between one hub or none. Only a single airport can operate as a hub in the UK. That leaves three options for the UK Government:

- It can do nothing and let the UK fall behind its European competitors at the cost of lost growth and jobs
- It can add additional capacity at Heathrow
- Or it can close Heathrow and replace it with a new hub airport.

To examine its options and help it decide its aviation policy for the future, the Government has established an Airports Commission. After fifty years of indecision on aviation by successive Governments, this is the last chance to take a policy decision before the UK loses its position as a major air transport hub for good. The pros and cons of each option should be carefully considered. We suggest 12 criteria against which new hub airport capacity options could be assessed:

1 Will it result in a competitive hub airport?

2 Is it commercially deliverable?

3 Will it deliver sufficient hub capacity?

4 Will it be able to operate safely?

5 What are the economic benefits?

6 How quickly can it be delivered?

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12 How would options that involve replacing Heathrow manage the transition?