

# CAA Response to the Airports Commission Utilisation of the UK's Existing Airport Capacity Discussion Paper

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Enquiries regarding the content of this publication should be addressed to:  
Regulatory Policy, CAA House, 45-59 Kingsway, London WC2B 6TE

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# Introduction

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The CAA welcomes the Airports Commission's discussion paper on the Utilisation of the UK's Existing Airport Capacity.

As the UK's specialist aviation regulator, the CAA has significant relevant expertise in areas that are key to the Airports Commission's work. In relation to the Utilisation of Existing Capacity Paper, this includes much of the published regulatory and market analysis which the Airports Commission has already used.

In addition, the CAA collects a broad range of statistics and survey data, and has drawn on these resources to provide analysis to the Airports Commission.

The CAA's previous contributions to the Airports Commission and other work on aviation capacity policy can be found at <http://www.caa.co.uk/default.aspx?catid=589&pagetype=90&pageid=14751>

# Response to the questions posed by the Airports Commission

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

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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?

How do respondents view these trends developing in the future?

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?

- 1.1 The CAA agrees that there has been a reduction in air connectivity between London and the UK regions in the last decade. Whilst changes in the national and local economies of the UK are undoubtedly underlying causes of this effect, as are capacity constraints at the London airports, domestic routes may also be more affected by competition from other modes of transport and the effect of local aviation taxes than international routes and they are often more sensitive to changes in journey time.
- 1.2 The Commission correctly identifies the way that a domestic service to an airport with a range of onward connections can combine both point to point demand and transferring passengers to reinforce its viability, although, as CAA survey data shows, this effect is not only limited to Heathrow and can be observed at other airports where connections to short and medium haul services may be available.
- 1.3 With no new capacity at the major London airports, the effects of many of the factors outlined above are likely to continue to put pressure on domestic routes, although the pace is difficult to judge. Indeed, with the opening of HS2, it is likely that the route between London and Manchester in particular would come under more competitive pressure. However, changes in the local and national economies will also play a part, and these will not necessarily follow the same trends as seen in the last decade.

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?

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?

- 1.4 As noted above, the level of demand for a service typically depends on the economic activity between the points served, combined with the time and money cost of the service and any alternatives.
- 1.5 In the UK, it is usual that domestic traffic is carried on relatively small aircraft, although this does not have to be the case (the Commission cites an international example in paragraph 1.20 of its discussion document). In general, domestic air travel in the UK carries a relatively high proportion of passengers travelling for business purposes, for whom time is important (a number of sources quote that, where air and rail compete, rail takes a greater share when journey time is less than three hours). To provide such convenience often requires frequent services, otherwise the time advantages are lost in the difference between the desired time of travel and the available departure times. Making such services economically viable requires either leisure demand or, in the case of routes to an airport with a based network carrier, transfer passengers, for whom a frequent service is also important to maximise the range of available connections at the hub. Given the need for frequency of service, the level of overall demand often dictates that only small aircraft can be used for the service to be viable.
- 1.6 Where runway slots are scarce, it is unsurprising that small, frequent domestic services are amongst the first to be 'squeezed out'. In addition, since they are over shorter distances, domestic services are more likely to demand lower absolute fares, and therefore any increase in charges as a result of congestion (or maybe decrease in resilience or increase in delay) is likely to deter domestic passengers more than those on medium or long haul services. However, more capacity in London would only lead to an increase in domestic services if the price charged to consumers generated sufficient demand to make the required level of operation economically viable.

**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?**

- 1.7 The Commission is broadly right in its assessment of travel and route types at non-London airports, and the trend is likely to be due to the different depth and speed of the recession and recovery in the regions of the UK. Although the recession will have affected both business and leisure travellers, the effect on passenger numbers may not be the same. Even with less disposable income, there is considered to be some resistance amongst many leisure travellers to giving up a summer holiday abroad (although other, shorter leisure trips may be sacrificed) and there is scope for them to instead reduce their spending on holidays but still travel (for example, by staying for a shorter time, in cheaper accommodation or going to a less expensive destination). However, business travel is usually destination and time specific, and cannot easily demonstrate such flexibility.

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

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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?

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?

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?

- 1.8 The majority of the points the Commission makes about the financial challenges of smaller airports are correct. Indeed, it has already used much of the evidence available to and published by the CAA in its assessment.
- 1.9 In paragraph 1.41, the Commission quotes the CAA's Aviation Policy for the Consumer and asks for comments on the requirements for significant growth of a long haul network. It is important to note that the CAA would expect non-London airports to attract certain types of long haul route, particularly those that served very popular leisure destinations, the needs of a particular local migrant community or a hub airport in another country, where demand could be augmented by transfer passengers at that hub. However, to develop a network of long haul services and become a true hub operation, we considered the list of requirements to be necessary.
- 1.10 In paragraph 2.6 and Table 2.1, the Commission uses the fact that most non-London airports 'derive half or more of their traffic from just one or two airlines' to illustrate that there is a lack of competition amongst airlines and therefore significant buyer power. This statistic is not a distinguishing feature of those smaller airports compared to the larger London ones though, as it also held for Heathrow (BA and Virgin were 53%), Gatwick (easyJet and BA, 55%), Luton (easyJet and Wizz, 72%) and Stansted (Ryanair and easyJet, 92%) in 2013.

- 1.11 Potentially, the buyer power comes more from the relative size of the airline operation at these airports, and the available airport capacity in nearby airports, meaning there is a much more credible threat of relocation of services than may be the case at some of the London airports.
- 1.12 The Airports Commission's discussion paper correctly identifies the density of airports in the UK and the extent to which UK consumers have access to international airports and provides useful European comparisons. The routes offered at a particular airport at any time will depend on the mix of passenger demand (itself a function of wealth, leisure time, migration, business activity and other factors) as well as airline supply (in the short term, airlines have fixed resources available and will use them on those routes they deem most profitable) and competition from other airports and modes of transport.

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

**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?**

- 1.13 The CAA has a primary duty to further the interests of users of air transport services regarding the range, availability, continuity, cost and quality of airport operation services. It must do so, where appropriate, by carrying out its functions in a manner which it considers will promote competition in the provision of airport operation services.
- 1.14 The UK aviation market is essentially a privately owned and competitive one - with the exception of certain long haul markets, carriers are free to operate routes and set fares as they see fit and, aside from those which the CAA economically regulates due to their substantial market power, airports are free to set user charges at the level they want, subject to competition law and EU rules. Before undertaking any intervention, Government should ensure it has sufficient information and flexibility of action in order to successfully 'manage' the market or fine-tune market outcomes. There may sometimes be a case for public interventions, but there should be a high threshold in terms of the extent of detriment to be addressed.



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

## **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**

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?

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

- 1.15 The Commission identifies a number of options which Government could take in the future to support the regional airports sector. As noted above, any Government action should be carefully considered so as not to cause more detriment to consumers through its distortionary effects on the market for air travel than the benefits it brings through supporting regional airports.
- 1.16 When the Commission reviews and assesses the current published strategies of a large number of UK airports, it should also take account of the fact that these strategies have been adopted in the light of the current market conditions. As conditions change, including the recommendations of the Airports Commission and response by Government, but also in response to future market events or re-assessment by the airport management themselves, so may airport strategies change.