



Inner Thames Estuary Feasibility Study

Response to Airports Commission Call for Evidence

The Mayor of London's Submission: Supporting technical documents

23 May 2014

Title: **Attitudes to Relocating Hub Airports**

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Purpose of paper:

To provide the experiences of several international cities that have successfully transitioned to new hub airports, and how concerns have been addressed, and that attitudes shift following opening.

Key messages:

- Performance since opening indicates that, despite inherent complexities in moving large-scale airport operations in the short-term, most airlines have welcomed and benefitted from such a move overall, thanks to the additional capacity available.
- Concerns about a new airport tend to focus on aeronautical fees, competition, facilities and surface access. Following successful transition and a period of 'run-in' these issues have been addressed and attitudes have positively shifted.
- At Heathrow, the primary point of concern for airlines is that a new hub would compete with, rather than replace Heathrow, providing some airlines with competitive advantage.



Attitudes to Relocating Hub Airports

We have identified five relatively recent examples where existing airports were closed and replaced by new airports serving the conurbation. Although there are older examples, such as the opening of Paris Charles de Gaulle, this occurred under conditions of state ownership of both the airports and the airlines and before liberalisation of air transport allowing airlines a freer choice of where to fly. The 5 examples are:

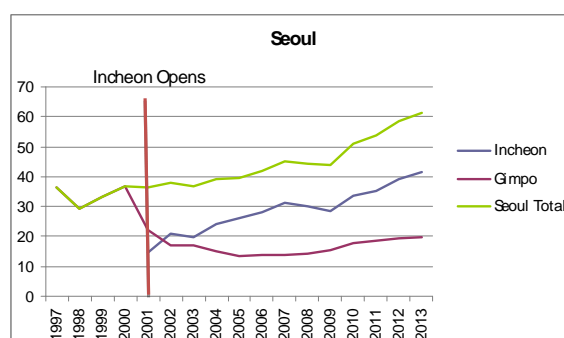
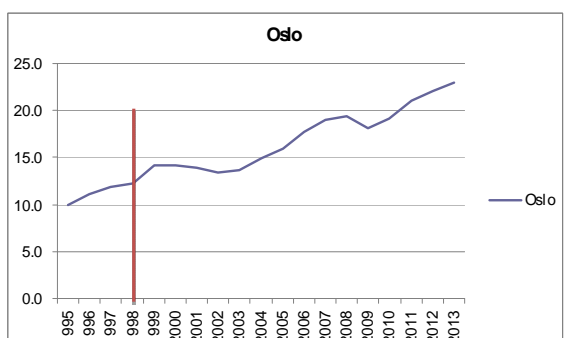
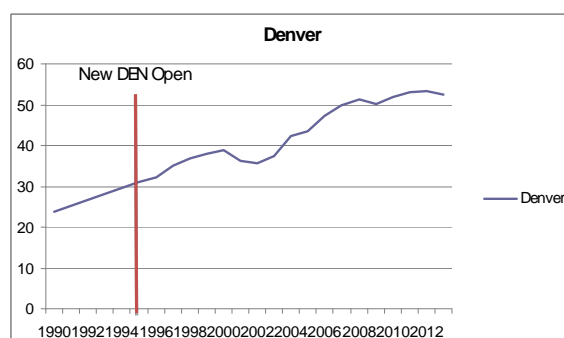
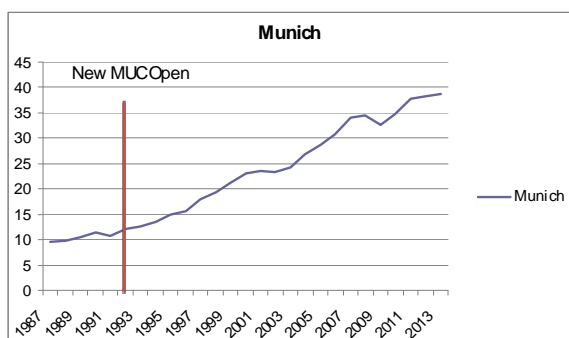
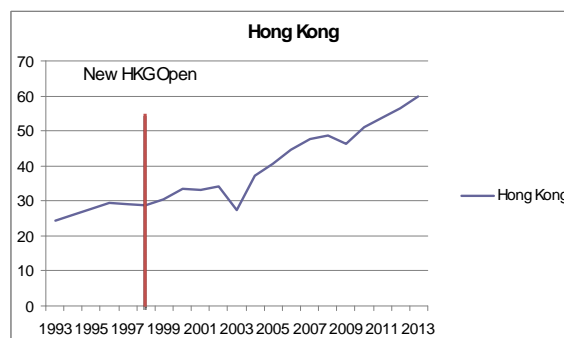
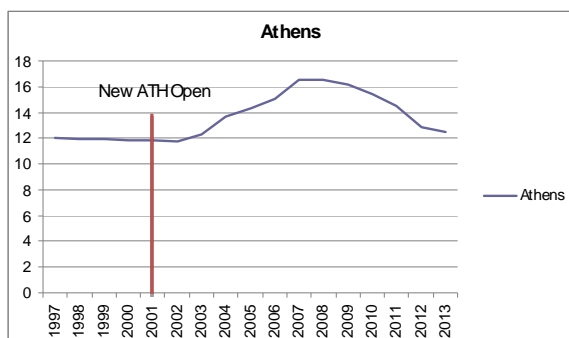
- Athens (2001)
- Oslo (1998)
- Hong Kong (1998)
- Denver (1995)
- Munich (1992)

Generally, replacement of the existing airport has occurred where the old airport has become capacity or environmentally constrained and it has been determined to build a new main airport to meet the needs of the urban area in its entirety. It is hard to find any examples of airports being replaced in this way in a competitive airport system environment such as London, although new airport capacity can be added, such as at Incheon in Seoul.

In all cases, the replacement of the existing airport, whether accompanied by closure of the old site or not, was aimed at providing capacity for growth. In the table attached, we have set out the available information about the process of relocation, airline attitudes and the effect on traffic.

Airline Attitudes

Looking at these examples, whilst information is scant, the performance since the airports have opened indicates that most airlines have welcomed and benefited from the additional capacity provided by a re-location to a new airport, even if an overnight move from one location to another is inevitably complex and problematic for airlines and airports alike, at least in the short term. Only at Denver does there appear to have been significant opposition from airlines prior to the re-location, although this seems to have dissipated relatively soon after. Without exception, the airports cited above have gone from strength to strength in terms of traffic throughput once the re-location was complete as illustrated on the charts below.



Whilst the new capacity may have been welcomed, a recurrent theme is airlines' concern about the costs. In the examples we have found, the principal concerns of the airlines, in almost all cases, have related to the costs of operating at the new airport, mainly in terms of the repayment of the capital costs. This was particularly the case at Hong Kong and Athens. At Hong Kong, the initial charges to airlines were 64% higher than at the old airport Kai Tak, even allowing for an initial 25% cut in the fees prior to the airport opening. In the case of Athens, the initial fees were double those at the old airport, which were already higher than at many other airports in Europe. In both cases, the higher fees were being justified on the basis of improved quality of the infrastructure and service to users. These high levels of airport charges, however, proved unsustainable and both airports were forced to cut charges to airlines to sustain growth in an increasingly competitive market.

In the case of Denver, which is used as a major hub by United Airlines, the issues revolved around the specification for the terminal and, in particular, the baggage handling system. Given the US system of airport funding, reaching agreement with tenant airlines is even more crucial than in the UK, as their forward lease commitments effectively underwrite the necessary loans to enable construction.

Ultimately the level of airport charges has not proved a handicap to growth at any of the airports. Hong Kong and Denver are well established hub airports and have continued to flourish. In both cases, the spare capacity available has allowed low fares airlines to enter the markets, with Denver being used as a major hub for Southwest and Frontier Airlines.

Significantly, at Munich, the new airport allowed Lufthansa to develop its secondary hub to act as a reliever to the congested Frankfurt facility.

Issues in a Competitive Market

In the case of a possible move from Heathrow to a Thames Estuary site, there has been some apparently negative press from incumbent airlines, with headlines that suggest that there would be a reluctance to contemplate such a move¹. However, a closer reading suggests that the major concern would be for one alliance to be handed an advantage over another: *"Insiders at Star and Skyteam said the only circumstances in which they might consider moving from Heathrow would be if all three alliances were to relocate together"*. This suggests that a complete relocation of all airlines from Heathrow to another location would be a lesser concern.

IAG's views have also attracted some negative headlines, but again a closer reading of what Willie Walsh has actually said suggests that the major concern is a new airport that competes with Heathrow rather than replaces it:

*"The only way you'd make it financially successful is say you're going to build it and, as part of that, you're going to close Heathrow. If you leave Heathrow open and you build this new airport, we're going to stay at Heathrow."*²

So perhaps the greatest fear that airlines have about a new London Airport is competition: that one alliance or one airlines would be handed a competitive advantage or that others would be disadvantaged.

Of course, British Airways holds significantly more slots at Heathrow than other airlines (over 50% of the total in Summer 2013) and the lack of new slots makes that holding particularly valuable, both in financial and competition terms. British Airways' position is therefore challenging in relation to new capacity as it will threaten its competitive position in relation to the London market, undermining its so called 'Fortress Heathrow' strategy. A new airport with greater capacity would offer more opportunities for market entry to other competing carriers, potentially resulting in lower yields and ultimately impacting on British Airways' margins. Conversely, this levelling of the competitive playing field would potentially bring significant benefits to consumers. However, it should be recognised that to some degree that British Airways' position is potentially sensitive to the new capacity introduced by a third runway as well. This would also potentially dilute its competitive position and allow greater competition. However, from British Airways' position it probably appears a less threatening development that also allows some growth.

As with our examples from elsewhere, airline concern about the level of airport charges is inevitable given the cost of a new airport (and the cost of re-location). Excessive airport charges at a new airport could ultimately have the same effect as a capacity constrained Heathrow, with airlines looking to review their operations and concentrating on other hubs. However, experience elsewhere would suggest that the right balance can be struck to enable growth as, ultimately, the higher charges levied do not appear to have been an impediment to growth.

¹ 'Big Air Alliances Rule Out Move from Heathrow' Financial Times 11 August 2013, <http://www.ft.com/cms/s/0/1fb1bbb6-004b-11e3-9c40-00144feab7de.html>

² Daily Telegraph, 18 January 2012,

<http://www.telegraph.co.uk/finance/newsbysector/transport/9023843/BAs-Willie-Walsh-says-he-will-not-be-checking-in-at-Boris-Island.html>

Whilst cost of operation is a key factor, it is less so for global long haul operations as the airport charge element is a much smaller proportion of overall airline operating costs. As is clear from the examples we looked at, airlines are also concerned about capacity and service quality. In recent years, Heathrow has attracted more attention for its poor quality passenger experience than it has for its status as London's primary hub. London First, representing the capital leading businesses, undertook a study in 2008 which noted that:

“Stakeholders representing overseas organisations indicate that their perception of Heathrow is damaging London and the UK. One organisation interviewed indicated that a potential foreign investor had decided not to invest in London due to the falling standard of services provided at Heathrow. A second respondent indicated that if Heathrow was once a major selling point to overseas investors, this is no longer unambiguously the case. A third indicated that some meetings with clients were taking place outside London, and specifically in and around continental airports, as a result of the poor service quality associated with Heathrow.”³

A final concern which the airlines will have in relation to relocation from Heathrow is the loss of the lucrative west London catchment area, where passengers may switch to other airports, particularly for short haul services. Such a concern does not arise where a new airport is a direct replacement but could arise where there are other competing airports serving the city, such as in London. Shifting to a new hub to the East of London will improve the competitive position of Gatwick and Luton in particular in relation to this important market. Surface access to the new hub will therefore be key, as will broader strategies to see economic growth concentrated to the East of London. Over time, it is expected that the economic centre of London will continue to shift eastwards helping to negate these concerns. There is evidence of economic activity migrating to the vicinity of new airports following their opening.

Benefits from Spare Capacity

As noted above, the availability of spare capacity at the new airport has facilitated the rapid expansion of hub activity and also the attraction of low fare carriers, bringing benefits to airlines and passengers alike. It is reasonable to expect that these same benefits would arise with a new hub airport, providing ample capacity for competition and innovation. The expected effects would include:

- lower fares for passengers;
- an increased range and frequency of services, including UK domestic connections;
- greater capacity for air freight in both bellyhold capacity and scope for expansion of pure freighter operations.

These potential beneficiaries are often silent on the lead up to opening as they have less of a vested interest, but are keen to take advantage of the opportunities when new capacity becomes available.

³ 'Imagine a World Class Heathrow', London First, June 2008.

Conclusion

There have only been a handful of examples in recent times of new airports in major cities completely replacing old airports. But where this has happened, each airport has gone on to become a significant player in the aviation market. Munich, for example, is now a premier hub airport in Europe and Hong Kong continues to be regarded as one of the world's best airports – as well as being the world leading freight airport. Clearly, re-locations from one airport to another bring short term problems, but in each case these problems have been overcome and the airports have gone on to longer term success.

There are legitimate reasons why airlines are not clamouring for the re-location of a major airport such as Heathrow, which are outlined above. In some cases these have attracted what appears to be a negative press. However, a closer reading of airline concerns suggests that a new airport set up in competition with Heathrow is the root of the airlines concerns, rather than a re-location per se. Concerns about increased airport charges and surface access would need to be addressed, if airlines are to be reassured that new hub will be positive for their business.

Examples of Airport Relocation and Impacts

Airport	Date	Ownership/Finance	Impact of Move	Impact on Traffic	Impact on Operators
Athens	2001	The Airport is operated by Athens International Airport SA, which is a partnership of the Hellenic Republic (55%) and a private consortium (45%) led by German construction company Hochtief. The operator has a concession to operate the Airport for a period of 30 years from 2001.	The Airport's Annual Report for 2001 states that a "timely and seamless" transition from Ellenikon Airport was achieved through detailed planning and careful organisation and that it had been acknowledged that the move led to the most successful international airport opening of the last decade. Approximately 189 companies including airlines, ground handling companies, state authorities and other service providers were involved in the relocation. Munich Airport Consulting, with experience of a similar re-location at Munich in 1992 (see below), acted as advisors.	After opening, the Airport's throughput grew strongly reaching 16.5 million in 2007 and 2008, although throughput has since declined in the wake of the global recession and the problems in the Greek economy, dropping back to 12.5 million in 2013.	There is little information about the impact of the move in terms of customer perceptions. The Airport was built to a high standard in preparation for the 2004 Olympic Games and service quality is very good, but charges did apparently increase significantly compared with the old airport. However, this does not appear to have had a significant impact on traffic following the re-location, which grew from 11.8 mppa to 16.5 mppa within the five years from 2002 to 2007.

Examples of Airport Relocation and Impacts

Airport	Date	Ownership/Finance	Impact of Move	Impact on Traffic	Impact on Operators
Oslo	1998	Financing of the new airport was effected through a state loan issued to a limited company owned by the state (i.e. the Norwegian civil aviation authority which was then called Luftfartsverket, but is now called Avinor). This company was responsible for the operation of Fornebu until it closed and then became the owner and operator of the new airport at Gardermoen.	After the last aircraft took off from Fornebu on 7th October 1998, it is reported that 300 people spent the night transporting 500 truckloads of equipment from Fornebu to Gardermoen. The new airport opened on the following morning.	Annual statistics for Oslo are not available prior to 2001 (except that it appears that Fornebu was handling some 10 million passengers per annum in 1996) but since that time growth has been strong at Gardemoen and the Airport now handles 23 million passengers per annum.	Fornebu was not a major hub for SAS, but the opening of Gardermoen has led to Oslo Airport becoming one of SAS' three hub airports and the second-busiest airport in the Nordic countries (after Copenhagen). The passenger terminal is currently undergoing major expansion to bring annual passenger capacity up to 28 million in the first phase and is expected to be completed in 2017. The second phase will increase annual passenger capacity to 35 million.

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Hong Kong	1998	The Airport Authority (AA) of Hong Kong is a statutory body wholly owned by the Hong Kong Special Administrative Region (SAR) Government. Established in 1995, the AA is responsible for the operation and development of Hong Kong International Airport (HKIA).	The re-location was undertaken in a single night (5th to 6th July 1998), but did not go smoothly and there were operational problems for the following six months. A Commission of Inquiry was set up to investigate what went wrong and the major issues were found to be primarily with the FIDS system, the baggage handling system, and with cargo handling.	Traffic statistics are not available for every year prior to 1998, but the growth post re-location has been steady (with the exception of 2003 when the SARS epidemic caused a significant dip) and 2009 when the global recession hit. There were 28.7m pax in 1998 on opening and the Airport now handles 59.9m pax per annum.	A contemporaneous article from Flight International dated February 1996 shows that Cathay Pacific supported the new airport, because of the additional capacity to expand its operations but also in order to consolidate staff and crew facilities into a single new location. Despite the initial problems, Chep Lap Kok was soon being seen as one of the world's best airports, winning Asiaweek 'Best Airport' award in 2000 and Air Cargo News Cargo Airport of the Year for 2002–2003. It has secured the Travel Trade Gazette 'Best Airport' award ten times since 2002 and the 'Best Airport in China' award seven times in the past eight years.

Examples of Airport Relocation and Impacts

Airport	Date	Ownership/Finance	Impact of Move	Impact on Traffic	Impact on Operators
Denver	1995	<p>The City of Denver owns and operates Denver International Airport. The cost of construction of the new airport was just over \$4.8 billion. Of that amount, just over \$3 billion was financed with municipal bonds issued by the City of Denver. The remainder was contributed by the FAA (\$199m), United Airlines (\$261m), Continental (\$73m) and the various car rental car (\$66m) for their various facilities..</p>	<p>A convoy of vehicles travelled from the old to the new Denver International Airport overnight, and the new airport officially opened for all operations the following morning. There were a number of delays and problems in the construction of the new airport and with the opening, but these appear to have been relatively minor and to have settled down quite quickly. The New York Times of March 1 1995 reported “no serious problems had been reported in the initial hours of the new airport’s operation. Even the much-maligned \$193 million baggage system performed as advertised.”</p>	<p>Passenger throughput statistics are not available pre 1996 but there was consistent growth thereafter (except in the 2 years post 9/11) from 32m in 1996 to 52.6m in 2013, now making Denver the 15th-busiest airport in the world by passenger traffic and a major hub for United Airlines and also now for the low cost carrier Frontier Airlines.</p>	<p>According to International Airport Review United and Continental opposed a move to a new airport, claiming there was no demonstrated need, and that the costs of moving would drive airport charges too high. Yet despite opposition at the time, the new Denver International Airport is now the largest airport by area in the US, 6th busiest by passenger traffic and a significant economic generator. Denver was voted ‘Best Airport in North America’ by readers of Business Traveler Magazine six years in a row from 2005 to 2010 and was named ‘America’s Best Run Airport’ by Time Magazine in 2002.</p>

Examples of Airport Relocation and Impacts

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Munich	1992	The Airport is publicly owned and operated by Flughafen München GmbH (FMG), whose shareholders are the Free State of Bavaria with 51%, the Federal Republic of Germany with 26%, and the City of Munich with 23%.	There were no reports of major problems during or after the move. Flight International (17/22 June edition 1992) reported that the move cost up to \$6.3m and was 3 years in the planning and that there were few hiccups in the opening weeks.	In 1992 Munich handled 12.1m pax and there was strong growth subsequently. Between 1995 and 2006, passenger numbers doubled from under 15 million per annum to over 30 million. Munich now handles over 38 mppa.	In 1996, the airport overtook Düsseldorf as Germany's second busiest airport and Lufthansa created a second German hub at Munich in 2000. Approval has now been given for the construction of a third 4,000m parallel runway. An extension to Terminal 2 is also due to be completed by 2015.