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# THE CASE FOR HEATHROW – A REALITY CHECK

SUBMISSION BY GATWICK AIRPORT LTD

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## **Contents**

1. Introduction
2. Key Points
3. Heathrow's case on traffic and future airport capacity
4. Heathrow's argument that long-haul flights from Gatwick are unsuccessful
5. Heathrow's argument that no city supports more than one hub
6. Conclusion

## 1. Introduction

Heathrow has begun to attack Gatwick's expansion proposals over the last few months including a press release entitled 'Heathrow challenges Gatwick's claims on long-haul routes'. Heathrow's arguments are all backward looking and focus primarily on when they were running Heathrow, Gatwick and Stansted as a near monopoly. Their arguments consequently focus on the historic traffic patterns served by a two runway Heathrow and one runway Gatwick. However, the runway choice looking forward is between:

- three at Heathrow, one at Gatwick, or
- two at Heathrow, two at Gatwick

and the decision needs to be based on how the industry might evolve in future, not how it was in the past.

BAA/ Heathrow's traffic arguments are confused and largely ignore the forces that are reshaping the aviation industry. London is easily the world's most important aviation market. London needs peak hour capacity, convenience for passengers, and efficient and competitively priced services to cater for the bulk of future traffic demand, which will remain primarily for UK and European routes. The dominant business model for these routes is based on low cost airline principles and is now adapting its service product to cater for premium as well as economy traffic. Heathrow simply cannot meet the imperatives of such airlines because of its very slow turnaround times, and its very high charges. Heathrow's expansion plans would set new standards of inefficiency for airline operations and deliver the world's highest airport charges. These factors, along with reduced competition between airports would choke demand and reduce connectivity whilst raising air fares. Heathrow's case is based almost entirely on the notion that the viability of new long-haul routes will be dependent on whether Heathrow is able to develop a new runway. In reality there is no shortage of slots for viable long-haul routes as such routes generate more profits for the aviation industry, and there are plenty of slots at Heathrow currently being deployed on routes with limited economic value.

The alternative expansion option at Gatwick can deliver more capacity, quicker, with much more certainty, a lot cheaper and with lower risk than at Heathrow. The economics of long-haul services are being transformed by new generation hub-busting aircraft. By the time a new runway is operational in the late 2020s or early 2030s, Gatwick will have a larger and stronger base of short/medium-haul traffic that can support new long-haul routes. Gatwick will develop flexible capacity that will enable transfers to be made efficiently between any type of airline irrespective of airline alliance membership, using technology that is available and proven now, and which cannot be offered by Heathrow with its isolated and remote terminals.

But the decision does not rest on the force of traffic arguments alone. There are significant political barriers to expansion anywhere and in Heathrow's case these barriers are most probably insurmountable. Heathrow simply ignores the social and health costs of expansion at Heathrow. The massive noise impact is assumed away by the extraordinary claim of 'more flights, less noise'. Air quality is a further issue which alone will stop or render uneconomic its expansion plans. Again these problems are assumed away by unrealistic assumptions, most of which are wholly beyond Heathrow's control. Even if Heathrow were able to reduce airport related road traffic, which is itself unrealistic, the available capacity would be soaked up by underlying growth in demand to use what are already Europe's busiest and most congested roads. The costs, both direct and indirect, and risks of construction are

again not properly addressed and appear extremely optimistic, as do the assumptions about surface access.

The claimed addition to capacity is also significantly overstated. Aside from constraints arising from the complexities of operating three runways under the proposed configurations, there is the challenge for air traffic control to deliver the required additional capacity concentrated on one geographic area with consistency and resilience. No thought appears to be given to allocating any of the new capacity to improve Heathrow's resilience, and the additional constraints that will be imposed through the political and planning processes on runway movements and method of operation are also largely ignored, leading to exaggerated and unrealistic claims about how much capacity would be delivered by an expansion. The consequences for passenger access in getting to the airport, and processing and journey times within the airport, are also ignored.

Heathrow's critique of Gatwick's plans is equally flawed and selective. Like the basis of its main case of 'one hub or none' it seeks to reduce this complex decision on where to locate additional runway capacity to a series of self-serving sound bites. Strikingly it draws primarily on Gatwick's performance under its own ownership to put the case that Gatwick does not have a competitive product to offer as an alternative to Heathrow and cannot sustain long-haul routes. That may have been true under its ownership (which applied to the first 6 of the '10 years of failure') when Heathrow sought to centralise long-haul flights at Heathrow and gave Gatwick very limited management attention and capital investment.

Things have changed since the Competition Commission's enforced break up of BAA and the benefits of that decision for consumers and for airlines are now beginning to be felt, not just at Gatwick but across all London's airports. Heathrow's critique rests entirely on the full service carrier network model which is in decline relative to the Low Cost model. There is no mention of the trends that are reshaping the industry - whether the Low Cost phenomenon, their move into the premium traffic segment, the irresistible rise of the Middle East hubs, the emergence of long-haul low cost carriers or the impact of new technology aircraft, systems and processes on the industry. None of these trends supports Heathrow's case. All work against its arguments, and all are conveniently ignored.

There are some who call for the Commission to recommend more than one new runway, perhaps at both Heathrow and Gatwick. We do not believe that this would be viable in the light of forecast traffic growth, and would therefore not be possible without massive (and potentially illegal) public subsidies. The Commission must make a clear recommendation on where the next runway should be located.

## 2. Key Points

Ten reasons why the need for a Heathrow 'Mega Hub' is a 'Mega Myth'

**1) The vast majority of traffic from London will continue to be short-haul but Heathrow cannot cater for Low Cost Carriers which will account for the majority of this short-haul growth.**

70% of London demand today is from the UK and Europe. This is unlikely to change significantly in the decades to come as Europe will remain by far the UK's largest trading partner. Low Cost Carriers will account for the majority of this growth yet they cannot operate out of Heathrow. The physical constraints at Heathrow make quick turnaround times impossible. Heathrow's very high passenger charges price LCCs out of the airport today even before adding in the costs of any third runway in the future.

**2) Expanding Heathrow would mean less competition for long-haul routes and prices would rise for passengers.**

When it owned all the main London airports, the BAA strategy was to make Heathrow, as far as possible, the 'long-haul airport'. Gatwick and other airports have now started to compete for 'point to point' long-haul. Fares at Heathrow are, however, over 20% higher for equivalent routes. Expansion there would simply reduce competition and drive prices even higher for passengers.

**3) Changes in aviation will reduce rather than increase the need to create a Mega Hub at Heathrow for more transfer passengers.**

Aviation trends are critical. In the future new generation long-haul aircraft will mean that people can fly further point to point, bypassing hubs and reducing the need for passengers to transfer. New business models for airports, such as Gatwick Connect, are beginning to enable transfers between airlines without alliance, code-sharing or interlining deals. At the same time the new Middle East Mega Hubs are drawing transfer passengers away from Europe.

**4) Connections to the emerging growth markets are not especially dependent on a Mega Hub.**

Long-haul to emerging markets accounts for 7% of the market today. This will increase more rapidly than flights to other markets but should not distort decision making. For example, it is clear that where there is demand for flights to cities in China today, it is being met. Gatwick is increasingly connecting to new emerging markets such as Vietnam and Indonesia.

**5) The capacity that the UK needs should not be narrowly defined by one market but by the needs of all passengers.**

Heathrow cannot cater for the full spectrum of operations - Low Cost short-haul, Charter and long-haul - all of which are important. Gatwick is uniquely placed to do this. The needs of all passengers and their impact on the UK economy should be the key consideration.

**6) There are slots that could be used at Heathrow today for long-haul flights if airlines wished to do so. Hub capacity at Heathrow is nowhere near exhausted.**

Around 5% of slots at Heathrow are used purely for leisure flights such as Palma and the Canary Islands. Moving these flights to another London airport would free up 32 daily slot pairs. History also shows that airlines would allocate these slots for other long-haul routes if they were commercially attractive. This hasn't happened, showing the slack in the system today at Heathrow for new long-haul.

**7) London is the best connected city in the world, reflecting the fact that its Origin & Destination passenger demand is much higher than for any other city. Government policies promoting liberalisation and competition have helped to increase passenger choice and drive down fares. A Mega Hub would have the opposite effect.**

London's success has been built on consistent Government policies of liberalisation and competition reflected in the multi airport approach today. A Mega Hub is not only unnecessary to meet the capacity demands of the future, it would also reverse this progress by reinstating a near monopoly.

**8) A Mega Hub at Heathrow would be bad for the environment and bring huge delivery risks.**

A Mega Hub at Heathrow would have massive environmental challenges. Heathrow already has greater noise impact than all the other European hub airports put together. In addition, there would be huge delivery risks with, for example, the proposed third runway going across the M25. It would also create massive overloading of road access to the airport.

**9) All airports see routes come and go year-on-year. Heathrow is no different. Route churn is not the indicator of success or failure.**

Heathrow has claimed that Gatwick cannot sustain long-haul as it has lost routes over recent years. Leaving aside the fact that Gatwick lost many of these routes when it was under the ownership of BAA (now Heathrow), the commercial nature of airlines means that route churn is a reality for all airports. In 2013, Gatwick has added 5 and lost 3, while Heathrow has added 2 and lost 4.

**10) Unlike other Mega Hub options, expanding Gatwick would mean that Heathrow remains open, creating two major international gateways for London and the wider South East region.**

Expansion at Gatwick would meet the short and medium-haul demand of the future. We believe that some airlines would switch from Heathrow freeing up capacity for the airport to operate much more effectively with a focus on transfer and long-haul traffic for legacy carriers. This would create two major international Gateways for London and the South East. This would be similar to New York where Newark acts as the main hub airport alongside JFK, as an alternative major international gateway.

### 3. Heathrow's case on traffic and future airport capacity

The main features of Heathrow's overall argument can be summarised as follows:

- *The long-haul connections the UK needs can be provided only by a hub airport like Heathrow, with its large pool of transfer passengers*
- *Connections to emerging growth markets are especially dependent on support from a hub, and lack of capacity at Heathrow is constraining the UK's access to these markets*
- *So what the UK needs is hub capacity*
- *Yet hub capacity at Heathrow is exhausted, and this is damaging the UK's connectivity*
- *Therefore there is an urgent need to permit Heathrow to expand with at least one new runway, and eventually perhaps into becoming a four-runway Mega Hub*

In this section, we comment on each element of this argument in turn, expressing our view that Heathrow's argument is flawed and needs to be assessed in a much wider context than Heathrow has recognised.

3.1

*The long-haul connections the UK needs can be provided only by a hub airport like Heathrow ...*

The great majority of Heathrow’s traffic is short-haul

- Heathrow clearly wishes to confine the debate to long-haul traffic and hub operations where, as ‘the UK’s only hub’, it perceives it has an advantage. However, the first reality is that the great majority of Heathrow’s air traffic is short-haul, rather than long-haul.

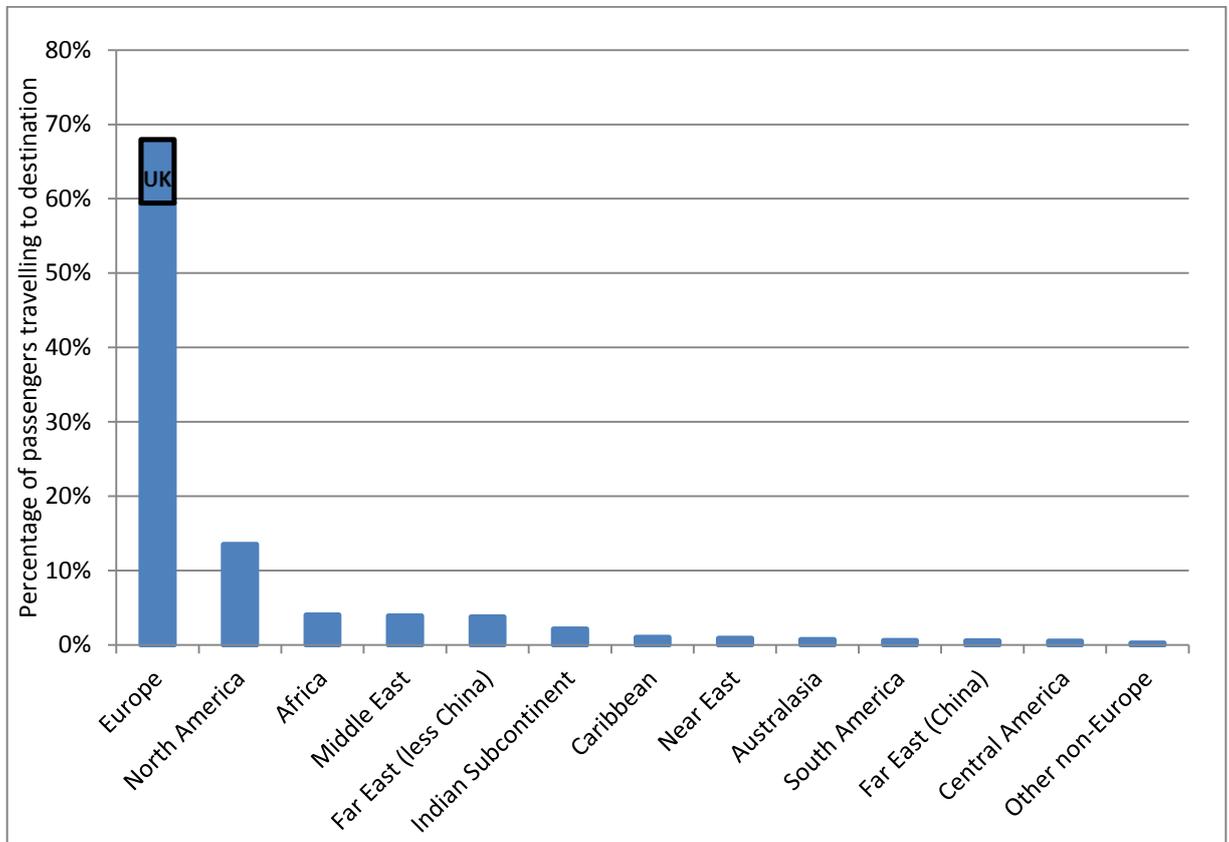
Total Heathrow Air Traffic Movements 2012 (in ‘000s)

	No.	%
LHR Short-haul	305	64
LHR Long-haul	169	36
<b>Total</b>	<b>474</b>	<b>100</b>

(Source: SH&E)

70% of London demand is to/from Europe, and this will continue

- A second reality is that around 70% of London demand today is to/from the UK and Europe (as shown below).



(Source: CAA data tables 12.1 and 12.3 (2012 data))

- By 2030, short-haul traffic to/from Europe and the UK will still be between 60 and 70% of London demand, reflecting the fact that Europe is by far the UK's largest trading partner.

Heathrow is incompatible with the Low Cost Carriers which dominate short-haul

- The reality is that most future demand and growth will be for short-medium-haul flights which are already dominated by Low Cost Carriers (LCCs), and will in the future be served almost entirely by airlines based on LCC principles, particularly their quick turnaround times and focus on cost efficiency. New capacity must be able to serve this demand, yet Heathrow today cannot do this and an expanded Heathrow will be even less suited. First, it has very high charges (already one of the most expensive and, if expanded, the most expensive in the world by some margin). Second, Heathrow's physical constraints in terms of its airspace, terminal, taxiway and runway systems makes it impossible to provide quick turnarounds. It is clear that Gatwick is much better equipped to service the majority of traffic i.e. short/medium-haul. Gatwick is able to offer significantly lower charges than Heathrow – even with the costs of a new runway at Gatwick included – as well as offering the fast turn-around time that allows short-haul LCCs and charter airlines to operate multiple rotations.

Long-haul demand is predominantly to/from North America

- Long-haul traffic to/from London nonetheless remains significant and is today just over 30% of total London demand. The largest proportion of this is to/from traditional markets such as North America where London has a geographical advantage. London is at a disadvantage for many Eastern markets, as connecting through London involves backtracking from most places in Europe, and because it faces formidable and growing competition from the rapidly expanding low-cost Middle East hubs. The main long-haul traffic flows can be summarised as follows -

	<b>% of London Local Passengers</b>
BRIC	3.7%
CIVETS	3.3%
<b>Total BRIC+CIVETS</b>	<b>7.0%</b>
Africa - other	2.9%
Far East - other	5.0%
South America - other	0.4%
Central America - other	0.3%
<b>Total Africa/Asia/S+C America</b>	<b>15.6%</b>
Middle East	3.1%
North America + Caribbean	12.1%
Australasia	1.5%
<b>Total LH</b>	<b>32.2%</b>
Europe	59.0%
UK	8.8%
<b>Total SH</b>	<b>67.8%</b>

(Source: PaxIS)

- Heathrow's main transfer market advantage is in relation to the North Atlantic, for reasons of history and geography. This market is likely to remain strong and to continue to grow. While it is acknowledged that the majority of these routes are currently out of Heathrow, we do not believe that this will be the case looking forward. The development of Gatwick will allow routes to North America to be served from Gatwick (as in fact they have been previously). Norwegian's recent launch of North American routes is a sign of such potential demand, over a decade before new capacity could be added at Gatwick.

A key issue is whether to promote competition between airports, or else to strengthen Heathrow's dominant position in long-haul

- Overall, it is clear that current patterns of traffic between the main London airports have been heavily influenced by the strategy of BAA who owned them all until recently. That strategy was to make Heathrow the primary location for long-haul, and it is therefore no surprise that today it hosts the hub operations of British Airways and has the highest proportion of transfer passengers. A result of Heathrow's dominant position in long-haul is that airline yields and profitability there are relatively high – as evidenced by the high prices airlines are prepared to pay to acquire slots there.
- The Competition Commission has recently taken the far-reaching decision to break up BAA's monopoly ownership of the major South East airports, with the clear policy intent of promoting competition and delivering the many benefits that flow from that. The choice now is whether to reverse that policy aim by strengthening the dominant position of Heathrow (by permitting a third runway there) or else to continue to foster competition (by permitting a second runway at Gatwick). In this, the likely future trajectory of airport charges and airline fares at Heathrow are crucial. First, it is already the case that fares from Heathrow are at least 20% higher than fares for equivalent routes from Gatwick. This is consistent with the findings of research in the US on fares at dominant hubs, and we see no reason why this fare premium would not grow if Heathrow was allowed to expand, because market power would have increased further. This fare premium adds to the cost, to passengers, of expanding Heathrow as opposed to Gatwick. Second, the airport charges faced by airlines at an expanded Heathrow would, we estimate, be the highest in the world, and be well over twice the charges faced by airlines at an expanded Gatwick. Third, any decision to expand Heathrow would likely be constrained, perhaps dramatically, due to environmental and resilience requirements. Thus, an already challenging business case is likely to be further undermined when more realistic capacity constraints are imposed on it.
- A growing Gatwick would be a tough competitor for Heathrow, but it is clear that both airports could thrive in this competition, developing route structures which offer a choice of airlines, fares and routes that would enhance passenger choice and support the UK economy. We believe that the benefits of competition are such that a second runway at Gatwick will be better for passengers and for the UK economy than expansion of Heathrow which would reinforce its already dominant position.

In Summary

- In summary, any plan to provide new runway capacity must cater for all types of demand, and must take account of the probability that the pattern of long-haul

flying which was fostered by BAA will change as Gatwick and Stansted develop under separate ownership, and as other developments such as the runway lengthening at Birmingham are progressed. In addition, future industry trends will change London's Long-Haul traffic patterns. As new capacity is provided at Gatwick and competition is encouraged, passengers will benefit from more choice, more routes and lower fares. And London's multi-airport system will adapt to provide the connectivity the UK requires once additional runway capacity is available.

### 3.2

*... with its large pool of transfer passengers*

#### The proportion of transfer passenger depends on strategies of airlines, not airports

- The principal difference between a hub airport and other airports is the presence of a substantial proportion of transfer passengers. This, however, is largely the result of choices by airlines rather than by airports – in the case of Heathrow, principally by British Airways choosing to locate its hub operations there.

#### The importance of transfer passengers is not as great as Heathrow claims, and that advantage is likely to be eroded by future industry trends

- Heathrow's arguments are based on comparing its current two-runway hub operation with one runway alternatives like Gatwick. But the opportunity to add new capacity means that this is the wrong comparison. A two-runway Gatwick will be much better equipped in terms of efficiency, cost and passenger convenience, to handle short/medium-haul traffic (representing the great majority of demand and where the low-cost model is clearly superior), transfer traffic, and long-haul traffic.
- Even if we accepted the flawed focus on Heathrow's current operations, their representation of the facts is wrong. Heathrow claims that 75 of its current routes can be served only from there. Our estimate is that the number which is dependent on this is closer to 20 than 75. These 20 thin routes represent less than 5% of Heathrow's capacity, and less than 2% of London's current capacity.
- The duration of Heathrow's advantage in terms of transfer passengers will be limited by future industry trends:
  - new business models for airlines which do not depend so much on traditional network operations;
  - new technology aircraft which facilitate these business models;
  - new business models for airports which facilitate transfers between airlines which do not have alliance or other formal links;
  - the advance of new hubs and airlines in the Middle East which will increasingly draw transfer passengers away from traditional Heathrow feeder routes in Europe; and
  - competition attracted by the higher fares and profitability currently evident at Heathrow.

### 3.3

*Connections to emerging growth markets are especially dependent on support from a hub, and lack of capacity at Heathrow is constraining the UK's access to these markets*

Prospects for routes to emerging economies are currently limited by the commercial viability of such routes, rather than by a lack of hub capacity

- The fact that the UK does not have more routes to emerging markets is the result of airlines' assessments of the commercial viability of such routes, rather than due to a lack of hub capacity.
- At the annual level, routes to/from emerging markets (BRICs and CIVETs) currently amount to around 7% of total London demand. Whilst growth rates to destinations such as the Far East and South America can be expected to increase more rapidly than traffic in other markets, they will still represent a relatively small proportion of total traffic. For example, a growth rate of just under 5% a year to China will mean that by 2052, the annual number of passengers to and from China will rise to just under 5mppa, compared to less than 1mppa today. The challenge of ensuring good connectivity to emerging markets is not capacity today. Capacity will be freed up to meet this demand as and when it makes commercial sense, under all expansion scenarios.
- Prospects for expanding routes to China illustrate this point well. Heathrow has argued that the lack of direct connections to cities in China is "something the UK should be worried about". However, the reason why the UK is not connected directly to a range of smaller cities on the Chinese mainland today – and some other European countries are – has little to do with Heathrow being full. It is almost entirely to do with the lack of market demand to fly to these locations from the UK. Where there is sufficient demand to fly from London to cities in China, this demand is being met. The table below shows our estimate of the historic daily demand for a selection of long-haul routes. Beijing and Shanghai are connected to the UK (the former from Heathrow and shortly from Gatwick). Guangzhou and Chengdu have limited connectivity to London via non-daily services from Heathrow. Although latent demand may add to these flights, other Chinese destinations do not, in our view, yet have sufficient demand to support a route. When there is sufficient demand to e.g. Harbin, we would expect the airlines to put that route on.

Market Size, Passengers per day each way	
New York (JFK)	2,673
Dubai	1,590
Hong Kong	1,367
Los Angeles	1,122
New York (EWR)	1,070
Boston	1,027
Bangkok	997
Orlando	964
Singapore	893
San Francisco	891
Beijing	471
Shanghai	448
Guangzhou	46
Chengdu	19
Xiamen	18
Fuzhou	16
Shenyang	12
Nanjing/Nanking	10
Chongqing	8
Dalian	7
Hangzhou	7
Qingdao	6
Changsha	6
Xi An Xianyang	5
Kunming	5
Harbin	3

(Source: PaxIS O&D report UK-World FY11/12 London long-haul)

Gatwick has already demonstrated that it can support routes to emerging growth markets

- It is already clear that routes to emerging economies do not all have to be served from Heathrow e.g. Gatwick has recently added new routes to Russia, Turkey, China, Vietnam and Indonesia.
- The challenge for Heathrow and Gatwick, as for any other UK airport seeking to serve the emerging growth markets to the East, is that it is extremely difficult to compete effectively with the new low cost hubs in the Middle East and Turkey which have the geographical advantage, backed by massive expansion of long-haul fleets based in those countries, the benefits of modern efficient hub facilities, low costs, and rapidly growing traffic volumes.

We refer to this further in section 3.7 below, under Future Industry Trends.

### 3.4

*So what the UK needs is hub capacity*

The reality is that the UK needs additional capacity which can handle the full range of traffic types, and can handle that efficiently

- The capacity challenge is how to meet growth in traffic demand when the current position is that 90% of the traffic in UK airspace is point-to-point (rather than hub and spoke) and 70% of UK traffic is short-haul, and this position is unlikely to change radically in the future.
- The UK needs the right type of capacity to meet growth in these primary segments. This capacity must be able to meet the efficiency and cost requirements of the low cost carriers – which Heathrow plainly cannot.
- Heathrow's argument ignores the real need for additional capacity which must be able to:
  - a) handle the wide range of traffic types which future traffic growth will comprise – short/medium-haul, charter and long-haul; and
  - b) handle that range of traffic , and particularly the 70% of which is short-haul, efficiently and cost effectively.

Heathrow is incompatible with these imperatives because of its operational limitations and high costs.

- Our view is that
  - Gatwick is a better, and much more cost effective, solution for this spectrum of traffic; and that
  - future incremental London demand for long-haul can be accommodated through a combination of modern, efficient incremental capacity at Gatwick and existing capacity at Heathrow.

### 3.5

*Yet hub capacity at Heathrow is exhausted ...*

#### Hub capacity at Heathrow is not exhausted

- As mentioned earlier, 64% of air traffic movements at Heathrow are short-haul.
- Hub operations at Heathrow reflect mainly the network operations of the oneworld alliance of which BA is a leading member. This is reflected in the proportions of transfer passengers within the oneworld alliance at Heathrow. As indicated in the InterVistas report for Gatwick, around 75% of connecting traffic at Heathrow is within the oneworld alliance. In contrast, only 5% of the connecting traffic at Heathrow is within the Star Alliance. So, if anyone is short of hub capacity, it must be BA and oneworld. Yet it is clear that BA, following the acquisition of bmi, has sufficient slots for many years ahead.

- One indicator is the list of the new routes initiated by BA since the acquisition of bmi:

Dublin	Bergen
Stavanger	Amman
Belfast City	Beirut
Leeds Bradford	Baku
Bologna	Zagreb
Hanover	Seoul Incheon
Rotterdam	Tbilisi
Marseille	

We in no way question BA's commercial judgment in choosing these routes, but the list suggests that the commercial case for opening up new routes to emerging economies is not yet sufficiently strong, and clearly the limited number of such new routes is not due to a lack of hub capacity or available slots.

- We estimate that around 5% of slots at Heathrow are used for flights that are purely leisure and/or VFR. This includes flights to destinations such as Palma, the Canary Islands and Pisa. Moving these flights to another London airport would free up 32 daily slot pairs – more than enough to serve every single emerging economy on the UK's target list.
- All of this indicates that there is sufficient slack at Heathrow for viable new long-haul routes to be added, provided marginal short-haul routes, such as flights to leisure destinations, are relocated by market fundamentals. History demonstrates that airlines will optimise the allocation of routes within the London airport system to get the most commercially efficient overall outcome. It is therefore highly likely that if and when there is a real shortage of hub capacity at Heathrow for new long-haul routes, the less hub-like routes will move to other airports provided there is capacity to accommodate this. The fact that this has not happened already is almost certainly because the commercial attractiveness of such new routes is insufficient to displace routes which are in a sense "babysitting" slots until commercial reality requires a change.

### 3.6

*... and this is damaging the UK's connectivity*

#### Heathrow exaggerates the risks to UK connectivity.

- As evidence of lack of UK connectivity, Heathrow has cited 26 routes not currently served daily from Heathrow but served daily from another European hub.
- In reality:
  - Of the 26 markets cited, 13 are served from another London airport and one additional will be served from 2014;
  - 3 of the 26 markets are served from Heathrow, but less than daily;
  - Not all of these markets are served daily from other European hubs, and some of the services they provide are not non-stop.

#### The UK's connectivity by air is good, and this position can be maintained by encouraging competition through a second runway at Gatwick

- Based on passenger volumes London is the largest aviation market in the world ahead of New York, Tokyo and Paris. (Source: ACI). London is one of only two cities in the world (alongside New York) which handles more than 100 million passengers. Furthermore London is the best connected city in the world and the UK as a whole is among the top 5 countries in terms of connectivity.
- This success has been built, not on the excellence of the Heathrow hub, but on consistent Government policies of liberalisation and competition – which are reflected in the competitive multi-airport system which London has today. And it is clear that each of the other top world cities is served by at least two major airports.
- Continuation of that approach, coupled with more runway capacity and the fact that London is by some distance the largest Origin & Destination market in the world, will maintain the UK's status as a global aviation hub. In particular, fostering competition via expansion of Gatwick will put downward pressure on airport charges and airline fares – a key dimension of connectivity. Conversely, further expansion of Heathrow, reinforcing its dominant position, is likely to lead to higher fares and to the highest airport charges in the world, all of which would damage the UK's connectivity.
- Traffic modelling done for Gatwick by InterVistas, covering the period from 2020s to the 2040s, indicates that the UK's connectivity with a Two-Runway Gatwick / Two-Runway Heathrow would be better than the alternative of a Three-Runway Heathrow / One-Runway Gatwick.

3.7

*Therefore there is an urgent need to permit Heathrow to expand with at least one new runway, and eventually perhaps into becoming a four-runway Mega Hub*

#### Heathrow's argument is narrow and backward-looking

- Heathrow's core argument is narrowly focused on hubs and long-haul, and does not give weight to two sets of factors which will, in reality, count heavily in reaching any eventual decision - Future Industry Trends and the Sift Criteria determined by the Commission.

#### Future Industry Trends

- The aviation industry is constantly changing, and the pace of change is accelerating. The trends which we believe will shape demand for future UK airport capacity include:
  - The continued advance of the low cost model in short-haul, and more recently in medium-haul;
  - Increasing connections between low cost short-haul carriers (LCCs) and long-haul operators, assisted by the increasing proportion of business travellers carried by the LCCs and by self-transfer processes such as Gatwick Connect;
  - Continued rapid expansion of low cost efficient hubs in the Middle East and Turkey, reflecting to a significant extent the growth of flights to/from the Far East, for which the Middle East is much better placed than Europe as a viable transfer location; the growth of these Middle East hubs and their associated airlines is likely to reduce the proportion of transfer passengers using European hubs;
  - New technology aircraft, such as the Boeing 787 and Airbus A350 will enable direct flights to new destinations that are further afield, and will bypass hubs which previously were staging posts for such destinations;
  - Low cost long-haul airlines will emerge (some as extensions of existing LCCs, and some as new entrants) and these will take significant market share because of their cost advantages over legacy network carriers;
  - Mergers and bilateral alliances are likely to prove much more important in shaping the future of the industry than today's much larger but loose branded alliances;
  - The rapid growth of developing economies, particularly in the Far East, where airlines will connect direct to London, rather than relying on traditional hub airports; in other words, the growth of such routes will be mainly at "the other end" and will principally be supported by hubs in those countries.
- As experience in the US has shown, changes such as the above can radically change the scale and location of hub operations, indeed sometimes eliminating them altogether. Gatwick's view is that these trends, taken as a whole, suggest that expanding a traditional hub like Heathrow is likely to be a high-risk response to London's capacity needs. Expanding Gatwick will provide flexibility and be more robust to change.

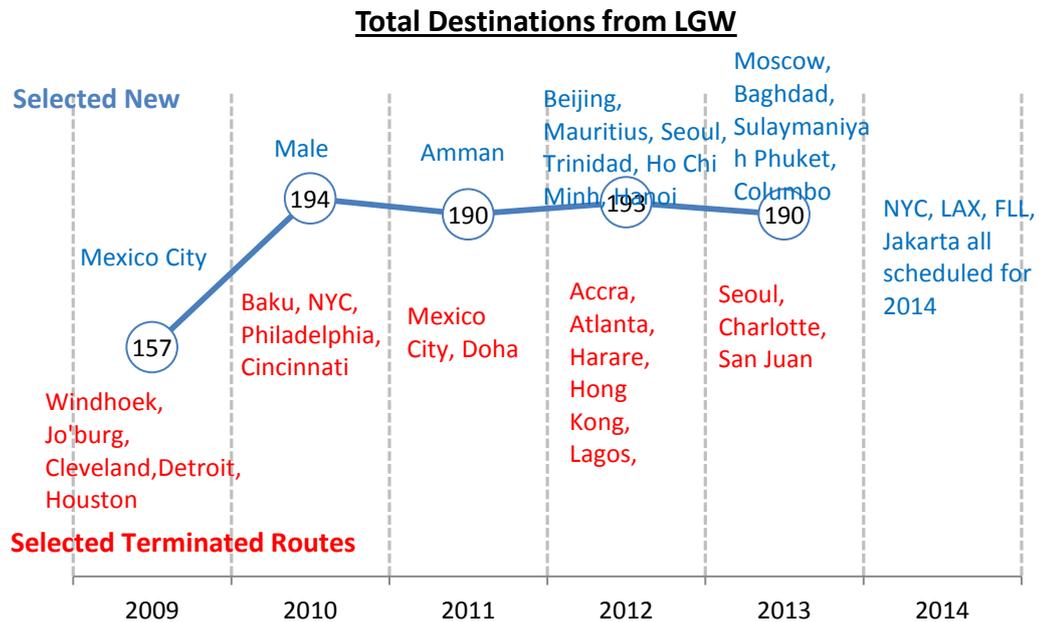
### Sift Criteria identified by the Commission

- As the Commission has repeatedly made clear, its final recommendations will take into account a wide range of criteria:
  - Strategic fit
  - Economic impacts
  - Surface access
  - Environment – including Noise and Air Quality
  - Passenger experience, and social impacts
  - Cost
  - Operational viability – including Resilience
  - Risks and Deliverability
  
- Gatwick’s view is that these criteria (and particularly Environment) weigh heavily against expansion of Heathrow, and that a comparison of the risks inherent in the Gatwick and Heathrow proposals will show that Gatwick is clearly the more deliverable solution. Key differentiators in Gatwick’s favour include:
  - Strategic fit – Gatwick will provide the right type of capacity, able to meet the needs of all types of operators – short-haul, charter and long-haul
  - Economic impacts – supporting economic development across a wider area, and at much lower cost, than Heathrow
  - Surface access – public transport links to a wider catchment area, and much less local transport congestion
  - Environment – noise impacts lower by an order of magnitude, no breaches of legal limits on air quality, and a substantially lower carbon impact
  - Passenger experience – more competition, greater choice, lower fares, better accessibility, shorter journey times
  - Social impacts – less displacement of communities, less disruption during construction, fewer adverse impacts on quality of life and on health
  - Cost – approximately one-third of the cost of the Heathrow options, and without the need for public subsidy
  - Operational viability – much better operational characteristics, and much better resilience
  - Risks and Deliverability – Gatwick would be by far the lower risk option, particularly in terms of construction risk and disruption, and in terms of planning and political risks. Gatwick can also be delivered much more quickly than any new Heathrow runway – which will be critical in enabling the UK to keep pace in the global economic race.

#### 4. Heathrow's argument that long-haul flights from Gatwick are unsuccessful

Heathrow's argument is based on wrong assertions and selective use of facts

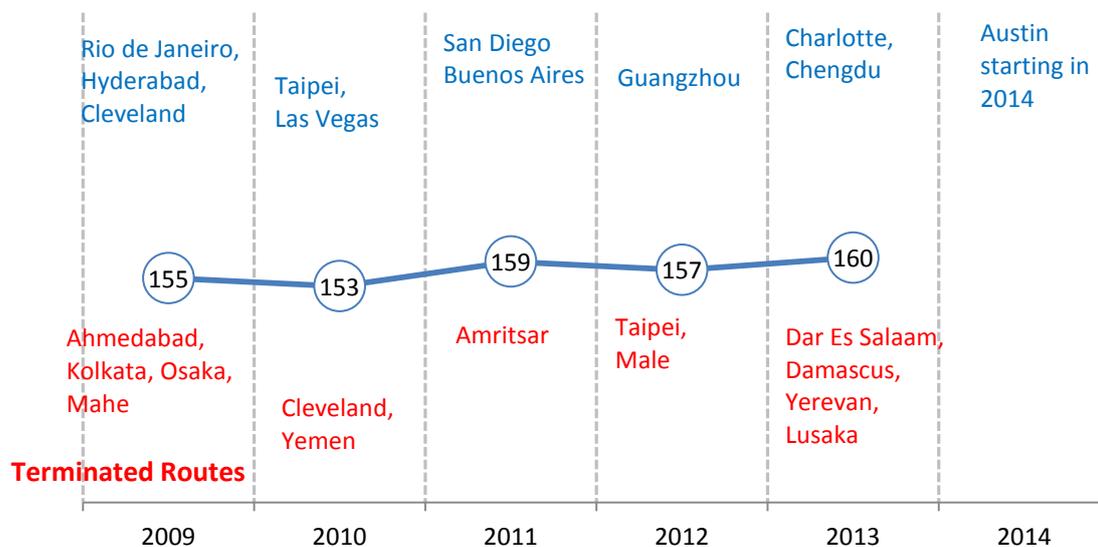
- Heathrow's press release identified four locations that it says Gatwick does not serve – South Korea, China, Indonesia, and New York. Since that press release, tickets have gone on sale for flights from Gatwick to Indonesia and China for 2014, and Norwegian has announced services from Gatwick to New York, Los Angeles and Fort Lauderdale. We are confident that a direct service to South Korea will be restored.
- Heathrow's press release cites 21 long-haul routes which have been withdrawn from Gatwick since 2008. Gatwick's assessment of this claim is as follows:
  - 8 routes - cancelled when Gatwick was owned by Heathrow (formerly BAA) - a point which their press release omitted
  - 7 routes - cancelled due to failure of carrier or business model (though 3 of these destinations are still served at Gatwick by other carriers)
  - 4 routes - moved to Heathrow
  - 2 routes - will operate from Gatwick in 2014
- All airports, including Heathrow, see routes come and go. The graphs below summarise some of the key routes that have arrived at, and left, Gatwick and Heathrow since Gatwick passed into separate ownership.



(Source: OAG)

## Total Destinations from LHR

### New Routes



(Source: OAG)

### Long-haul is beginning to grow again at Gatwick under new ownership and management

- Today Gatwick supports 40 long-haul routes flown by 11 airlines, including British Airways, Virgin Atlantic and Emirates – none of which would operate those routes if they were not successful. Our marketing contacts are indicating substantial further scope to increase long-haul services from Gatwick, particularly if we had the runway capacity to offer attractive, often peak time, slots. We are seeing rapid growth in the use of our Gatwick Connect service in support of transfer passengers, and we have no doubt that Gatwick’s growing short-haul traffic base (already serving more routes than Heathrow’s) makes substantial expansion of long-haul traffic at Gatwick a realistic prospect.

## 5. Heathrow's argument that no city supports more than one hub

### Heathrow's argument supports Gatwick's proposals

- Heathrow's recent study appears to be intended to show that "claims London can split its hub airport over multiple sites are without foundation" – a claim which appears to be attributed to "others such as Gatwick".
- The reality is, as the Commission will be well aware from Gatwick's Initial Proposals, Gatwick is **not** proposing that a second London hub along the lines of the current Heathrow should be developed at Gatwick or anywhere else. That being so, we will not comment further on this aspect of Heathrow's paper.
- Where that paper is much more relevant is in its (correct) finding that there are numerous cities around the world with multiple airports serving different functions, which is how London's competitive multi-airport system already operates today. Gatwick's proposal is that this multi airport approach should be built upon with a 2-runway Gatwick as a major international gateway – supporting efficiently the largest part of future growth which is short-haul, and supporting also a wider range of long-haul routes, which Gatwick clearly has the capability to do if the capacity is available.
- Our view is that such an expansion of Gatwick will not only meet the UK's connectivity needs, when the full range of likely market demand is taken into consideration, but will deliver important benefits to passengers (through a better passenger experience, greater competition and choice, as well as lower fares).
- The case of New York (cited in the Heathrow study) is, we believe, a valid comparator for London, and illustrates the concepts proposed by Gatwick. As the Airports Commission has identified, Newark has now overtaken JFK as a transfer airport (50% transfer traffic compared to 18% at JFK). This case demonstrates that the functions of airports within such a system can change - Newark's role as a hub has developed as JFK's hub role has declined, yet both airports continue to be successful, as does La Guardia. And it shows that a multi-airport system of large airports around a world city has allowed New York's airport capacity to evolve and adapt to changing circumstances. Gatwick advocates similar flexibility for the London system.
- What is also interesting about the New York system is that at JFK (the "non-hub") transfer passengers feed is being provided to long-haul carriers by an LCC, JetBlue, on a substantial scale. This is indicative of a key trend that will shape development of the industry over the next few decades.

## 6. Conclusion

Heathrow continues to promote the notion that the UK economy will best be served by adding “hub capacity” and that, as Britain has one hub (Heathrow), the Commission has little choice but to recommend that the next runway is at Heathrow (One Hub or None). The multiple other relevant criteria, especially those involving the environment and surface access congestion are dealt with through an array of aggressive and unrealistic assumptions about the future including many variables that are wholly outside Heathrow’s control (e.g. More Flights, Less Noise).

The legitimate comparison is not between the current two-runway Heathrow and one-runway Gatwick. The relevant choice is between a three-runway Heathrow/one-runway Gatwick and a two-runway Heathrow/two-runway Gatwick.

### Three-runway Heathrow / One-runway Gatwick

This option would indeed add “hub capacity” at Heathrow in that it would enable Heathrow to continue to grow its full service network model anchored in varying degrees (depending on the alliance) on some contribution from transfer traffic. It will not however offer any additional capacity for the universe of airlines based on the low cost model. Today’s Heathrow cannot meet their required turnaround times and has virtually no LCC traffic. An expanded Heathrow, based on any of the three proposed options, will be even less capable given the additional taxiing times and operational compromises. Heathrow’s airport charges are already way above any level that makes sense for LCCs and will rise to much higher levels given the extremely high capital costs of Heathrow (which we believe are severely understated).

Further, this first option will produce nowhere near the incremental capacity claimed by Heathrow in its submission. Heathrow stands alone in proposing a wholly unrealistic over-allocation of the new capacity similar to today’s current over-allocation which is the cause of Heathrow’s long standing lack of resilience. These problems will become much worse should this degree of over-allocation take place on a three runway configuration, as proposed. In addition, we see no adjustment for the operational complexities involved in operating Heathrow with its proposed terminal, runway and taxiway configurations. Then there is the additional challenge of management of the airspace which will become exponentially more complex with severe consequences for delays. Finally, there is no allowance for the environmental restrictions that will inevitably be placed on Heathrow through the political and planning processes (assuming that the application is able to come through these processes at all).

### Two-runway Gatwick / Two-runway Heathrow

By contrast, the Gatwick expansion option will provide a large increment of capacity that will not be constrained by the same configuration, airspace and environmental problems. Further, Gatwick is not proposing and does not need to propose Heathrow-style over-allocation of capacity. This option will provide the right type of incremental capacity. Gatwick will be able to continue to serve LCCs and meet their turnaround, wider operational and cost requirements. This type of traffic has accounted for the overwhelming majority of market growth in the last decade; LCC carriers have grown by circa 9% a year, while the full service and charter segment have declined 1% and 6% a year respectively in the South East. This fast growing LCC segment is expected to continue to generate most growth (unless constrained by lack of capacity). Most importantly, Gatwick will also be able to serve all other types of airline business models. The expanded Gatwick will also be designed to

serve transfer passengers from any type of airline to any other type of airline irrespective of business model or alliance membership. By the time a new runway could first become operational (in Gatwick's case 2025 compared with 2030 at the earliest for Heathrow), Gatwick will have a larger base of short to medium haul traffic than Heathrow. Over the next 12 to 17 years, Gatwick's short to medium haul traffic will continue to grow while Heathrow's will continue to stagnate or shrink.

### Pre New Runway

#### Short/medium-haul Traffic (Passengers, millions):

	2002	2012	2025*
Heathrow	33.5	33.4	33.6
Gatwick	20.3	27.9	34.6
Heathrow > Gatwick	13.2	5.5	
Gatwick > Heathrow			1.0

Note: no new runway assumed. Data based on onboard passengers (transfers included). Passenger numbers include domestic passengers

(Source: \* ICFSH&E forecast)

This larger short to medium haul traffic base will underpin the economics of operating long-haul flights out of Gatwick reinforcing the positive impact of the introduction of new generation "hub-busting" aircraft, such as the A350 and 787 Dreamliner, and Gatwick's much more efficient and lower cost operations compared to Heathrow.

Once the new runway at Gatwick opens, more traffic will be drawn to Gatwick as it becomes even more competitive on choice, convenience and cost considerations. Gatwick believes that eventually there is every prospect that many airlines will switch from Heathrow or choose Gatwick as their preferred growth airport for the South East. This should free up capacity at Heathrow and enable it to operate much more effectively with a focus on transfer and long-haul traffic for legacy network carriers.

The Gatwick option will also have other benefits that should generate great value for the UK economy and the travelling public whether business, leisure or visiting friends and family. First it is the option that will generate most competition, offer most choice and exert most price discipline on both airports and airlines. Second, the lower airline fares will stimulate demand which in turn will generate more growth and more routes and frequencies. Third, a choice of airports will offer more convenient access and shorter journey times to more travellers within London and the South East and it will avoid the excessive overloading of surface access (especially road access) that would occur under the Heathrow expansion plan.

In relation to the many other critical criteria (such as air quality, noise, health, social disruption, surface access, construction disruption etc) the Gatwick option is clearly much more attractive. Finally, the risks of the Heathrow option in terms of community and political acceptability will, we believe, prove to be insurmountable.

### Summary

In summary, new capacity at Heathrow could handle transfer traffic (at great financial and environmental cost) but not LCC traffic whereas new capacity at Gatwick can handle both LCC and transfer traffic. Competition and choice will also yield enormous benefits, compared with a return to a monopolistic provider.

Heathrow's public attack on "Gatwick's 10 years of failure" fails to mention that for the first 6 of these years, Gatwick was owned and controlled by Heathrow (under the BAA name). In this period Gatwick suffered from under investment, neglect, poor management, poor service and the impact of Open Skies which led to a concentration of US services at Heathrow. Since the change in ownership the new management team has begun the physical transformation of the airport as well as delivering service levels well above the BAA/Heathrow norm. And there is much more to come – Gatwick is committed to continue to invest and innovate, and is intent on widening the service superiority gap compared to Heathrow.

Gatwick is now enjoying strong growth in short/medium-haul traffic and is beginning to develop new long-haul traffic, even without the benefit of a second runway. Heathrow's backward looking 10 years focus to support its argument demonstrates its weakness which is highlighted by looking at the implications of current trends and most likely future traffic growth scenarios almost all of which support the Gatwick and not the Heathrow growth option.

Gatwick is the right choice for the future.