

Turning Heathrow into London's Premium Airport



There are signs that business is looking at Heathrow in a new light. Many people are saying that a better-run airport is more important to their businesses than a bigger one.



Bob Ayling, the former chief executive of British Airways, has argued that the plans to expand Heathrow would be “a costly mistake” and “against Britain’s economic interests (1)”

Steven Norris, the former Conservative Transport Minister, now a successful businessman, has said that “the Government is pushing ahead with plans for a third runway without really understanding what that means for the economy (2)”

Anatole Kalesky, the economics editor of the Times, has written: “expanding Heathrow would be environmental, economic and political madness (3)”

Your business and Heathrow:

- Do you know how much your business may be losing as a result of delays at Heathrow?
- *Would it be in the interest of your company if the tax-breaks enjoyed by the airlines (such as tax-free fuel) were removed to finance a cut in, say, corporation tax?*
- How critical is the expansion of Heathrow to your business?
- *Do you feel your company’s future depends on Heathrow being able to serve more destinations or is the real money being lost because of constant hold-ups at the airport?*
- How important is quality of life in London for your executives?

“I think the whole country can agree that the most important priority for Heathrow is making it better, not bigger”

David Cameron MP Evening Standard, 16/6/08

8 Ways of Making Heathrow the Airport Business Deserves

1. Reduce Delays

Delays at Heathrow are costing business billions each year

Bob Ayling argued in his article in the Sunday Times that a major cause of Heathrow's current problems is the fact that it is operating at 99% capacity. This allows no slack. It results in aircraft being routinely delayed and the processing of passengers becoming a nightmare with long queues forming in the terminals. Ayling does not believe expansion will solve the problem: "Under current growth assumptions, Heathrow will be full again within a decade of the opening of a third runway."

These delays are costing business money. The Government puts the cost of an 18 minute delay for a business passenger at £408 per annum. If this is accurate, the 2 hour check-in time at Heathrow is costing the UK over 2% of GDP!

What no one seriously disputes is the main reason why Heathrow is so dreadful: it is bursting at the seams. The Economist 27/3/08

These costly delays, Ayling argues, can be eliminated by *reducing* the number of aircraft using Heathrow: "instead of operating at 99% capacity, Heathrow should be operating at 80%." This can be done by cutting the numbers of transfer passengers and short haul flights using the airport (see below).

Former BA chief Bob Ayling argues that the business-friendly solution is to eliminate delays by not working so close to capacity.



From the Economist 27/3/08

2. Incentivise BAA to improve user quality

The current charging structure needs to be changed so that BAA is incentivised to improve quality for the user of the airport rather than the present system which just encourages BAA to spend more money and be given a guaranteed return. Ayling argues that at present "BAA is an almost recession-proof business, paid by the number of flights and passengers it can squeeze in and out of Heathrow." He adds: "There is no penalty for congestion or poor customer satisfaction."

3. Reduce Transfer Passengers

More than a third of passengers using Heathrow are transfer passengers – up significantly over the past 15 years. 26% of passengers are simply changing from one international flight to another – up from 16% in 1991. According to the CAA, leisure passengers outnumbered business passengers by more than three to one in 2006. British Airways argues that transfer passengers enable it to run more routes to more destinations. But the rapid growth in transfer passengers has actually coincided with a decline in the number of destinations served by Heathrow – down 21% since 1990 from 227 to 180. This is because of the business decision

by British Airways and some of the other airlines to focus on their most profitable routes. A report from CE Delft (4) found that Heathrow is less dependent on transfer passengers than other major airports in Europe as it has enough people using it whose destination is London.

There would be economic advantages in reducing the number of transfer passengers using Heathrow:

- International transfer passengers do not pay Air Passenger Duty. Every seat sold to a foreign transfer passenger costs the Exchequer up to £80 in lost revenue. If all their seats were occupied by people either starting their journey at Heathrow or transferring from a domestic flight, the Exchequer would gain more than £500 million a year.
- A reduction in transfer passengers would enable the number of flights using Heathrow to be reduced thus cutting flight delays and easing passenger overcrowding. Fewer transfer passengers would enable BAA to concentrate on providing a quality service for business passengers.

Ayling argues that Heathrow should concentrate on direct flights: “a sensible approach and a good basis for planning the future of Heathrow, leaving Paris and Amsterdam to invest in the costly capital assets of a hub.”

“Over 80% of companies report that transfers at a continental hub [rather than Heathrow] are either very or sometimes acceptable.” OEF Report, 2006

4. Reduce Short-Haul Flights

A study by HACAN in 2006 (5) found that, out of a total of 473,000 flights using Heathrow that year, 100,000 were to 12 destinations where there either is, or could easily be, a viable rail alternative – places such as Edinburgh, Glasgow, Brussels and Paris. A further 100,000 flights serve places, such as Frankfurt, a bit further away that could potentially be reached by fast rail. There is a strong argument for limiting the number of short-haul slots at Heathrow in order to free up space for more long-haul flights from the fast-developing economies of countries such as India and China. This would permit an increase in the flights which are important to business while allowing for a decrease in the overall numbers.

5. Encourage Competition between Airports

The monopoly position of BAA stifles competition. The Civil Aviation Authority, which regulates BAA, is obliged by law to act in the interests of passengers and airlines by restraining BAA from extracting monopoly rents. The break-up of BAA would permit a different approach; one that allowed prices at Heathrow to rise over time closer to market-clearing levels, creating a better balance between supply and demand. The main effect would be to squeeze out the most price-sensitive passengers, holiday-makers and those changing planes. This would enable the owners of Heathrow to concentrate on providing a high-quality, premium service to business and top-of-the market leisure passengers.

6. Redirect Tax Breaks

At present the aviation industry enjoys considerable tax-breaks. It has tax-free fuel and is zero-rated for VAT. It also doesn't pay the full cost of the environmental damage it causes. To rectify much of this would require action at a European or international level. But the UK Government could, as an interim measure, increase Air Passenger Duty. This should be offset by reductions in tax on business elsewhere so that the overall impact on business was at least revenue-neutral. The increased cost of air travel would reduce the overall number of flights without impacting on Heathrow's key markets - business and premium tourist passengers – which are least price-sensitive.

7. Improve the Railways

Better rail links to Heathrow would be good for business:

- New rail services, such as CrossRail and Air Track, would speed up journey times for Heathrow passengers travelling to London and the South East.
- Fast rail services, direct from Heathrow, to cities in both the UK and near-Europe, could assist in reducing the number of flights using the airport.
- A high-speed rail network north from Heathrow and London would bring significant economic benefits. A recent study from WS Atkins (6) found that investment in a high-speed network to the Midlands and Yorkshire would cost £30 billion but bring benefits, over a 60 year period, of £63 billion.

The aim should be to create a modern transport interchange at Heathrow with easy-connections and through-ticketing.

8. Adopt New Technologies

A recent report from WWF (7) highlighted the potential of new technologies, such as video-conferencing, to cut air travel. WWF commissioned the independent market research company, Critical Research, to undertake a survey of business travel practices among the FTSE 350 companies. It found:

- 89% of companies expect to fly less over the next 10 years;
- 85% of companies say that videoconferencing can help them reduce their flying;
- 89% of companies believe that videoconferencing can improve their productivity

There is a strong case for the Government to use the fiscal system, through for example the Enhanced Capital Allowance Scheme, to help business achieve these targets.

Conclusion

Heathrow is a valuable asset, occupying an expensive site. But its activities have a considerable impact on the environment. It is also failing to meet the needs of business. Heathrow should concentrate on providing business and high-income leisure passengers with a premium service. The measures outlined above would enable it to do that. The aim should be to make Heathrow the best airport in the world, not the biggest. That would also reduce its impact on the environment.

References

- (1) Sunday Times, 4/5/08
- (2) Speaking at the Stock Exchange launch of the CE Delft Report, 14/2/08
- (3) The Times, 28/2/08
- (4) The economics of Heathrow expansion, CE Delft, February 2008
- (5) Short-Haul Flights: Clogging up Heathrow's Runways, HACAN, 2006
- (6) High Speed Rail Report, WS Atkins, 2008
- (7) Travelling Light, WWF, 2008

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