WHY HEATHROW AIRPORT IS SO CROWDED

THE GROWTH IN TRANSFER AND TRANSIT PASSENGERS AT HEATHROW BETWEEN 1992 AND 2004

REPORT BY HEATHROW ASSOCIATION FOR THE CONTROL OF AIRCRAFT NOISE (HACAN CLEARSKIES)

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Heathrow Association for the Control of Aircraft Noise (HACAN ClearSkies) is a voluntary association of residents' groups and individual residents who campaign to reduce air traffic noise and other forms of pollution and hazard that arise from the operations of Heathrow Airport.

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INTRODUCTION

1. Airlines that use Heathrow Airport have recently combined to lobby the Government to permit the development of a third runway and a sixth passenger terminal at Heathrow. The airlines argue that Britain's economic growth will suffer if additional capacity is not created at Heathrow. But the airlines have not explained why Heathrow has become so crowded in recent years. This report considers the extent to which the airlines have themselves created the "crisis of capacity" at Heathrow, by routing an ever-increasing number of transfer and transit passengers through Heathrow instead of increasing the number of direct flights between smaller airports, in response to increased passenger demand.

DEFINITIONS AND NUMBERS

2. A transfer passenger is a passenger who flies into Heathrow in one aircraft and departs in a second aircraft without breaking his or her journey. A transit passenger is a passenger who flies into and departs from Heathrow in the same aircraft, which stops at Heathrow to pick up additional passengers and/or cargo; and/or to re-fuel. In both cases, Heathrow is no more than a stepping stone to the passenger's ultimate destination. The other categories of passenger at Heathrow are "local", in the sense that they are flying to and from Heathrow for a purpose other than passing through UK air space: UK residents flying to and from overseas destinations on business or leisure; and overseas residents flying to or from the UK for business or leisure.

3. Table 1 below shows that in 1992 the number of passengers transferring or transiting at Heathrow was about 4 million: about nine per cent of all passengers at Heathrow. But by 2004, the number of transfer and transit passengers had increased to about 23 million[1]: about thirty five per cent - more than one in three - of all Heathrow passengers. That is to say, of the 22 million additional passengers at Heathrow in 2004 compared with 1992, 19 million were transfer and transit passengers; and only 3 million "local" passengers. This rate of growth runs directly contrary to the evidence by British Airways to the Pubic Inquiry into Terminal 5 that transfer growth was likely to be slower than local growth[2].

Table 1: Growth in transfer and transit passengers at Heathrow between 1992 and 2004

	1992 (millions)	**2004 (millions)**	**Increase between 1992 and 2004**
Transfers and transits	4 (9 %)	23 (35 %)	19 (86 %)
Other passengers	41 (91 %)	44 (65 %)	3 (14 %)
All passengers	45 (100 %)	67 (100 %)	22 (100 %)

Sources: The data for all passengers are from the Civil Aviation Authority. The data for transfer and transit passengers in 1992 are derived from the Department for Transport report *Air Traffic Forecasts for the United Kingdom*. The data for transfer and transit passengers in 2004 are from the replies by the Transport Minister on 23 March 2005 (Hansard, Column 815 W) and on 6 April 2005 (Hansard, Columns 1509-1510 W) to a series of Parliamentary Questions on Heathrow by Jenny Tonge MP.

4. As regards the situation at London's four other main airports - Gatwick, Stansted, Luton and London City - Table 2 on the next page shows that the number of passengers increased by 37.2 million in between 1992 and 2004 - from 24.3 million in 1992 to 61.5 million in 2004. In contrast to the situation at Heathrow, most passengers at London's other four major airports are "local", with comparatively few transfer or transit passengers in 1992 or 2004.

5. As a consequence of the stronger growth in "local" passengers at Gatwick, Stansted, Luton and London City compared with Heathrow, those airports between them handled more "local"

[1] According to the Aviation Minister, the figures for 2004 were 22.7 million transfers and 0.234 million transits (Hansard, Column 815W, 23 March 2005).
[2] Roy Vandermeer QC (Terminal 5 Planning Inspector), *The Heathrow Terminal Five and Associated Public Inquiries*, 2001, paragraph 2.2.12.

passengers in 2004 than did Heathrow - 61.5 million compared with 44 million; a reversal of the situation in 1992, when Heathrow handled 41 million "local" passengers compared with 24.3 million "local" passengers at the other four airports.

Table 2: Growth in passengers at London's main airports between 1992 and 2004

	1992 (millions)	**2004 (millions)**	**Increase between 1992 and 2004**
Gatwick	19.8	31.4	11.6
Stansted	2.3	20.9	18.6
Luton	2.0	7.5	5.5
London City	0.2	1.7	1.5
TOTAL	24.3	61.5	37.2
Source: Civil Aviation Authority.			

MARKET DEMAND OR AIRLINE STRATEGY?

6. If air passengers were given the choice, most would opt to fly from their nearest airport direct to their final destination, rather than transferring or transiting via a major international airport. But - as shown in Table 1 above - transfer and transit traffic at Heathrow has grown dramatically over the last decade, despite the steady growth in passenger numbers overall and the entry of the low cost airlines operating outside Heathrow. As a result of this growth, the proportion of passengers at UK airports who cannot fly direct to their destination is higher today than it was ten years ago.

7. It is evident from the testimonies of the Department for Transport and BAA to the Terminal 5 Public Inquiry that present levels of demand for transfer and transit traffic at Heathrow are being stimulated by premeditated airline strategies rather than the free operation of the market:

- The Department of Transport said that future demand would depend largely on airline strategies and future development[3].
- BAA said that the level of demand had been stable up to 1991, with significant growth from 1992 onwards due to marketing strategies by the airlines in response to the Gulf War.

8. BAA did not spell out the details of the marketing strategy for maximising transfer and transit traffic at Heathrow, but transfer and transit passengers are less profitable than local passengers[4]. It is therefore likely that low air fares for transfers and transits appears are a key component in the package, which may involve an element of cross-subsidy from local passengers.

9. Further evidence that the airlines are stimulating demand for transfer and transit traffic at Heathrow comes from the decision by the Government to exempt the airlines from air passenger duty on transfer and transit passengers. The Parliamentary record shows that the Government views the exemption as an intentional State Aid for the airlines and fully backs their strategy of maximising transfer and transit demand at Heathrow:

> *We are concerned to maintain the international position of the British air transport industry and particularly that of Britain's hub airports, such as Heathrow, and to help the British airlines serving them by preventing air passenger duty acting as a disincentive to passengers changing planes in Britain*[5].

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[3] Vandermeer, paragraph 2.2.10.

[4] In an interview with *The Observer*, published on 10 November 2002, BA's Chief Executive stated that the transfer market was the "least profitable". Oxford Economic Forecasting made a similar assessment on page 45 of their report *The Contribution of the Aviation Industry to the UK Economy* (1999).

[5] Sir John Cope, Paymaster General - Hansard, 31 January 1994, Columns 642-643. Air passenger duty was introduced to compensate the Treasury - and other taxpayers - for the fact that the airlines are exempt from fuel duty and VAT. But air passenger duty raises less than £1 billion per year, whereas the exemptions from fuel duty and VAT cost the Treasury - and other tax payers - £9 billion per year.

10. The Treasury does not know how much revenue it is losing from the exemption of transfer and transit passengers from air passenger duty[6]. On the assumption that half of Heathrow's 23 million transfer or transit passengers in 2004 departed on long haul flights and the other half departed on short haul flights, the total cost of the air passenger duty exemption at Heathrow may have amounted to £575 million in 2004[7].

BENEFITS

11. The aviation industry claims that transfer and transit passengers enable the airlines to provide flights from Heathrow to more destinations than would be the case if only local passengers used Heathrow. The industry also claims that Heathrow is in competition with airports at Amsterdam, Frankfurt and Paris, and that attracting transfer and transit passengers is part of that competition. But the facts do not support either claim:

- Heathrow services 184 destinations today, compared with about 200 destinations in the early 1990s, despite the growth in transfer and transit passengers since the early 1990s[8]. Moreover, Gatwick now has connections with 188 destinations, despite having far fewer transit or transfer passengers than Heathrow[9]. The airlines have not explained why the increase in transfer and transit passengers since 1992 has resulted in a decrease rather than an increase in the number of destinations served by Heathrow. Nor have the airlines published a list of the destinations that would be axed if the number of transit and transfer passengers at Heathrow were reduced to the level of the early 1990s.

- The aviation industry presents the growth of passenger numbers at Amsterdam, Frankfurt and Paris as loss to Heathrow, rather than as a manifestation of the appetite for more flying by people in the Netherlands, Germany and France, many of whom fly to Heathrow and to other London airports from Amsterdam, Frankfurt and Paris. Table 3 on the next page shows the number of passengers handled at all of London's main airports between 1995 and 2004. Table 4 on the next page shows the equivalent data for Amsterdam, Frankfurt and Paris. It can be seen that the total number of passengers at the London airports in 1995 (82.8 million) was far greater than the number at Amsterdam (25.4 million), Frankfurt (38.2 million) or Paris (55.1 million); and that the increase in the number of passengers at the London airports between 1995 and 2004 (45.8 million) significantly outdistanced the corresponding growth at Amsterdam (17.1 million), Frankfurt (12.9 million) and Paris (18.3 million). That is to say, many more people were and are using London's main airports than were or are using the airports at Amsterdam, Frankfurt and Paris.

- In so far as airports can be said to compete with each other, Table 3 on the next page indicates that the "threat" to Heathrow comes from London's four other main airports, who increased their share of passengers at all of London's main airports from 35 per cent to 48 per cent between 1995 and 2004, attracting more local passengers than Heathrow in 2004, who focussed almost entirely on growth in transfer and transit passengers (see also Table 1 and Table 2 above).

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[6] See replies by the Treasury Minister on 22 March 2005 (Hansard, Columns 708 and 709W) to a series of Parliamentary Questions on stamp duty and air passenger duty by Dr Jenny Tonge MP.
[7] Air passenger duty is charged on passengers on flights departing from UK airports. The rates of charge are £40 per passenger on long haul flights and £10 per passenger on short haul flights. Dividing Heathrow's 23 million transfer and transit passengers equally between long haul and short haul flights would imply lost revenue of £575 million: £460 on long haul flights (£40 ×11.5 million passengers); and £115 million on short haul flights(£10 × 11.5 million passengers).
[8] The figure for present destinations is from BAA's Heathrow website. The figure for the early 1990s is from the statement of case by BAA to the Terminal 5 Public Inquiry.
[9] BAA's Gatwick website.

Table 3: Passenger numbers at London's main airports

	1995 (millions)	2004 (millions)	Increase between 1995 and 2004
Heathrow	54.1 (65 %)	67.1 (52 %)	13
Gatwick	22.4 (27 %)	31.4 (24 %)	9
Stansted	3.9 (5 %)	20.9 (16 %)	17
Luton	1.8 (2 %)	7.5 (6 %)	5.7
London City	0.6 (1 %)	1.7 (1 %)	1.1
LONDON TOTAL	**82.8 (100%)**	**128.6 (100%)**	**45.8**
Source: Civil Aviation Authority.			

Table 4: Passenger numbers at London's "competitor" airports

	1995 (millions)	2004 (millions)	Increase between 1995 and 2004
Amsterdam	25.4	42.5	17.1
Frankfurt	38.2	51.1	12.9
Paris (Charles De Gaulle)	28.4	50.9	22.5
Paris (Orly)	26.7	22.5	- 4.2
Sources: Airport Council International (ACI) for 1995 data and 2004 data for Amsterdam, Frankfurt and Paris (Charles De Gaulle). The data for Paris (Orly) is for 2003, as set out in Aeroports de Paris Annual Report 2003.			

DISBENEFITS

12. Heathrow was able to handle 67 million passengers in 2004, despite the evidence by BAA to the Terminal 5 Public Inquiry that Heathrow's maximum capacity with four terminals was 60 million. It is nevertheless the case that Heathrow cannot handle many more passengers; and the opening of Terminal 5 in 2008 - which will increase annual capacity by 30-35 million per year - may come just in time to avert a capacity crisis.

13. The fact that Heathrow is reaching capacity is due in large measure to the strategy of the airlines over the last decade to boost transfers and transits traffic as a proportion of all passengers at Heathrow. Therefore, the largest disbenefit of transfer and transit passengers is that they are precipitating the capacity crisis in the run up to the opening of Terminal 5. Moreover, if the rate of growth in the present number of transit and transfer passengers (23 million) continues, Terminal 5's capacity of (30-35 million) will quickly be absorbed by transfers and transits, thereby precipitating a further capacity crisis within a very short period of time.

14. Transfer and transit passengers yield less profit to airlines than local passengers contribute nothing in tax revenue to the Treasury (see paragraphs 8 to 10 above). Moreover, the alleged benefit of more transfer and transit passengers - an increase in the number of destination served by Heathrow - does not stand up to scrutiny: the number of destinations has dropped over the last decade, despite the phenomenal growth in transfers and transits (see paragraph 11 above).

15. In terms of the wider economy, overseas transfer and transit traffic contribute little in comparison with local business or leisure passengers: neither export opportunities for UK goods and services, in the case of businessmen who transfer or transit via Heathrow; nor the direct purchase of UK goods and services, in the case of leisure passengers who transfer or transit via Heathrow.

16. In summary, transfer and transit traffic has provoked a capacity crisis at Heathrow that threatens to crowd out demand from local passengers, for no obvious benefit to air passengers, the aviation industry, the Treasury or the UK economy.

SOLUTIONS

17. In a study funded largely by the UK aviation industry for the Department of Transport, Oxford Economic Forecasting (OEF) forecast that, if capacity constraints occurred at one or more UK airport, the airlines would aim to concentrate any loss of passengers on "those who yield least revenue", which OEF identified as transfer passengers, followed by some leisure passengers[10].

18. OEF did not explain how the airlines would reduce the number of transfer passengers, but the implication seems to be that transfers would not be prepared to pay the same price for their tickets as local passengers who currently yield more revenue (i.e. who pay more for their tickets than transfer passengers). That is to say, the airlines have it within their power to reduce the demand for transfer passengers by reversing the low pricing policy they adopted in the early 1990s in order to boost demand from transfer passengers (see paragraphs 7 and 8 above).

19. In addition to higher air ticket prices (a matter for the airlines), transfer passenger demand could be further reduced if the Government charged the airlines air passenger duty for transfer passengers, either at the present rates of duty or at higher rates of duty.

20. Increasing ticket fares for transfers at or above the prices paid by local passengers and charging air passenger duty on transfers at or above the rates of duty that are charged on local passengers is unlikely to end all transfer traffic at Heathrow. But there would be a significant in the number of transfers from the present thirty five per cent to less than nine per cent of all passengers at Heathrow (i.e. the share of transfers before the airlines adopted their strategy for boosting transfer numbers - see paragraph 3 above).

21. Such a reduction would create additional capacity at Heathrow by about 18 million (i.e. 46 million local passengers and no more than 5 million transfers and transits - see Table 1 above). The present capacity crisis at Heathrow would disappear; and the additional capacity that will be created by Terminal 5 would be available mainly for any increase in local passenger numbers, rather than for any continued exponential increase in transfer and transit passengers.

CONCLUSIONS

22. The disbenefits of artificially stimulating transfer and transit traffic at Heathrow outweigh the benefits, even without considering the extent to which transfers and transits magnify the noise and pollution impact of the operations at Heathrow on surrounding communities and on communities over which flight paths are routed.

23. Reducing transfer and transit traffic to its natural level of demand would enable Heathrow with Terminal 5 to handle forecast growth in passenger numbers over the next thirty years, even assuming that over that period aviation continues to be exempt from paying VAT and fuel duty; and from meeting the costs of the damage that it inflicts on the environment and local communities.

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[10] Oxford Economic Forecasting, *The Contribution of the Aviation Industry to the UK Economy*, (1999), page 45.