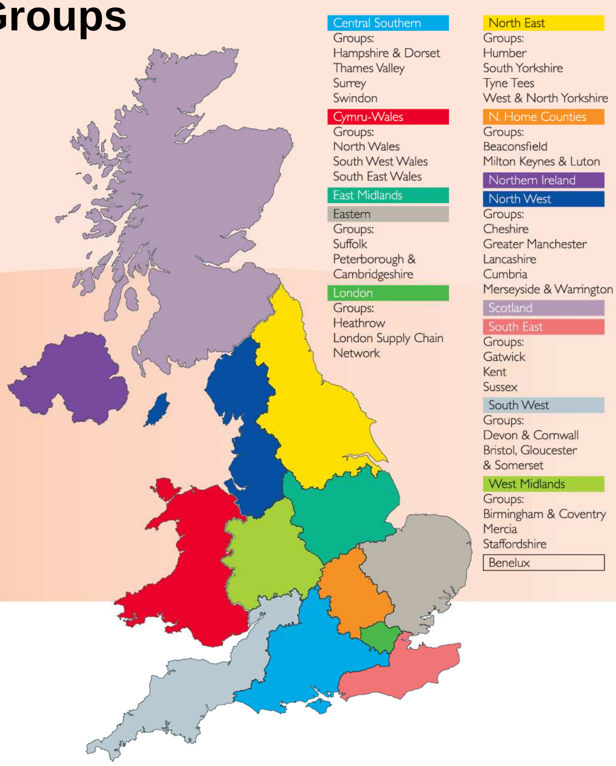
News from the Nations, Regions & Groups



CILT(UK) London Region

Heathrow Group

8th March 2011

IS THERE A FUTURE FOR NETWORK CARRIERS?

Jim Forster, General Manager Regulatory and Political Affairs, British Airways gave a very thought-provoking Presentation to an audience of 26 at the Heathrow Group's meeting on 8th March 2011.

To use the aviation analogy, British Airways faced strong headwinds made up of several components, ie higher costs than many competitors, severe competition, larger Alliances than OneWorld, a Heathrow Hub that is 99% full, the threat of a per plane tax and environmental challenges.

Profits in 2007/8 became losses in the following 2 financial years because of the recession. However, despite volcanic ash, cabin crew strikes and snow, British Airways returned to profitability in 2010. BA has been very successful in reducing costs by means such as operational efficiencies, better productivity and other savings. BA is able to offer air fares which are competitive with the 'low-fare carriers' who charge for extras.

The recent merger with Spain's Iberia under the holding company, called International Airline Group together with Regulatory approval of the alliance with American Airlines on north Atlantic routes were significant steps forward. All three airlines are members of the 'OneWorld' Alliance which of course contains many other carriers but is still smaller than the Lufthansa/United led Star Alliance. BA and Iberia will keep their own brands still.

The three airlines operate to 433 destinations in 105 countries. BA and Iberia are a good geographic fit with the latter's strength in Latin America complementing BA's strength to North America, the Middle and Far East/Australasia. The three airlines have hubs at Heathrow, Madrid, New York, Miami, Dallas/Fort Worth, Chicago and Los Angeles. The three-way co-operation will benefit passengers and shippers and facilitate cost-savings.

However, Heathrow, BA's hub is unable to expand and now serves fewer destinations than Frankfurt, Amsterdam, Charles de Gaulle, Munich and Madrid.

This is a threat to the wider UK economy, not just to London and the Thames Valley. With fewer destinations available, businesses may relocate to mainland Europe. The cost of not adding capacity at Heathrow will cost the UK economy £20bn in benefits. Heathrow could become a second tier hub, at the end of spokes rather than at the centre of a network.

As Heathrow cannot expand, BA has the option to grow at Madrid instead. Spain will benefit and Britain could lose.

UK Air Passenger Duty is too high but the Netherlands and Ireland have scrapped theirs and Germany's is quite low. The APD proposed replacement, the Per-Plane Tax, which is part of the Coalition Agreement, is a threat to transfer passengers. It will have a negative impact on the UK Regions and will be an incentive to fly via Europe. Already 50% of UK long-haul passengers transfer at European hubs or at hubs such as Dubai with fast-growing airlines such as Emirates. Trying to get Coalition Government Ministers to understand the economic threat this poses was proving a difficult task.

Increased Co2 production will be one result of the Per-Plane Tax, i e because of two take-offs and landings for a passenger 's journey. For example, a passenger flying from London to Rio-de Janeiro will be incentivised to fly London Paris Rio to avoid the high per plane tax applicable to the London Rio direct sector.

Our speaker then went on to outline the environmental challenges. The demand for air travel will grow as it is essential for global business and tourism. Taxing air passengers is not the solution to tackle the climate change challenge. Slowing the growth of air transport by punitive taxation could slow the introduction of more economical and fuel-efficient aircraft. The airline industry aims to halve emissions by 2050. Alternative fuels such as that derived from household waste will come into use in 2014 initially providing 2% of BA's needs. The emissions trading system starts in January 2012 which will be a new cost for carriers operating from Europe.

Jim Forster's Presentation was followed by a very lively and searching Question and Answer session which covered topics such as the decline of air services from other UK cities to Heathrow because of the lack of slots and increased APD, the implications of HS2 with benefits depending on whether there is a direct Heathrow HS train service or whether passengers have to change at Old Oak Common, the negative effect of the Per-Plane Tax on air freight from the UK- it will be trucked to mainland Europe for onward carriage by air.

British Airways still has to resolve the Cabin Crew Union situation despite all other sections of the workforce having agreed to productivity improvements. On a positive note, BA is recruiting engineering apprentices as almost uniquely it has not outsourced its aircraft engineering work to Asia.

The audience was left with much food for thought, not just about the air transport industry itself but the wider implications for the prosperity of the UK, hoping that the answer to the question in the title was YES!

Michael Peacock FCILT and Brian Madge FCILT