



# United Kingdom: Airport Expansion

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## Summary

The March 2008 opening of Terminal 5 at London's Heathrow airport was one of the largest airport investment programs in recent years. The terminal was designed to meet rapidly rising demand for air travel, and to address a decline in the UK's major airports that has seen Heathrow, in particular, fall behind its European peers. The construction of a new Terminal East at the airport is a further part of this strategy, underlined by the need to increase airport capacity near London before the 2012 Olympic Games. Developments in London somewhat distort the wider picture, however, and the extent of redevelopment and growth at UK regional airports is often overlooked. There are major challenges to further expansion, including a vocal environmental lobby, but anticipated government approval for a range of plans at Heathrow, Stansted and elsewhere suggests that airport development will continue to offer significant opportunities to U.S. companies in the aviation market.

## Market Demand

UK regional airports have experienced rapid growth over the past decade, driven by a range of factors, not least the emergence of highly competitive low cost carriers throughout Europe. In contrast, London's main airports have in the same period experienced increased air traffic congestion, rising fees for airlines, and rising complaints from passengers. London Heathrow in particular is widely considered one of the busiest and least popular airports of the world's major airports. Consequently, airlines and passengers have moved to increase the network of routes from regional airports across the UK.

This has been supported by the UK government, which as the result of a landmark study in 2002 prompted all UK airports to publish development strategies to meet rising demand for air travel. Local councils, who until recently owned many regional airports, have over the past decade become much more commercially-minded, forming partnerships to improve facilities and attract airlines to their town, city or region. For instance, Newcastle Airport, in the North East, is part-owned by Copenhagen Airport, and has introduced its first scheduled long-haul service, operated by Emirates.

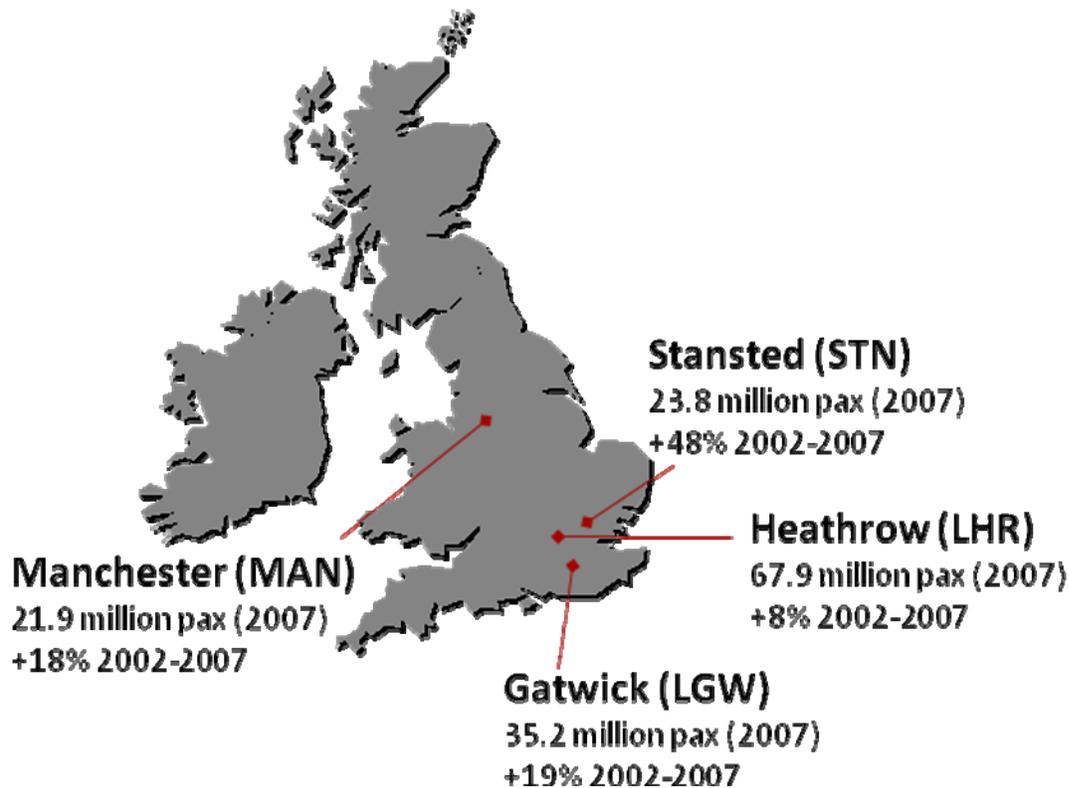
The UK's regional airports have extensive links to leading European hubs, particularly to Amsterdam (Schipol) and Paris (Charles de Gaulle). These connections provide medium and long haul passengers with numerous alternatives to London airports. Certain regional airports have added direct long haul services of their own. For instance, Continental has introduced a service from Bristol to Newark, the most recent of a number of regional transatlantic connections. Direct flights to Dubai also depart from any one of four UK regional airports, in addition to long haul scheduled services to destinations including Abu Dhabi and Islamabad.

The domestic airline market in the UK has changed substantially over the past decade. British Airways effectively exited the domestic sector in March 2007, selling the majority of its BA Connect flight network to the Exeter-based FlyBe. British Airways' franchise agreement with Loganair, a leading Scottish regional carrier, will transfer to FlyBe in late 2008. BMI Regional and Eastern Airlines, based in Aberdeen and Humberside respectively, have also emerged as important domestic carriers. Easyjet and Ryanair have been at the forefront of low cost carrier expansion in Europe and, more recently, in North Africa, with both operating from a network of bases throughout the UK. Leading leisure and charter operators, such as Thomsonfly and First Choice, have greatly expanded their services using a variety of regional airports, including Bournemouth and Doncaster Sheffield Airport, opened in 2005. In all respects, the emphasis in short haul travel has shifted toward regional airlines and regional airports.

## Market Data

The UK's leading regional airports have established a strong position in the market, handling 53% of all UK flights in the first quarter of 2008, against 47% at the main London airports. Manchester and Birmingham, alongside Glasgow and Edinburgh in Scotland, have for over 15 years been the principal regional hubs. But since the late 1990s they have been joined by several smaller airports, often as a result of expansion by successful low cost carriers. Bristol, Newcastle, East Midlands and Liverpool all benefited from this trend.

Table 1: Major UK Airports



The most significant increases in passenger numbers over the past five years, however, have occurred at mid-tier airports, handling between 1 and 5 million terminal passengers per year<sup>1</sup>. Exeter, Bournemouth and Southampton all stand out, posting growth in passenger numbers in excess of 145% between 2002 and 2005. It is no coincidence that these are important bases for Flybe, Thomsonfly and Eastern Airways respectively. These mid-tier airports are not all alike, however, with London City and Southampton almost exclusively handling scheduled flights, by comparison to the continuing importance of charter operations at Bournemouth, Leeds Bradford and Exeter.

<sup>1</sup> Equivalent U.S. airports of this size include Palm Beach, FL (3.48 million passengers in 2007); Tucson, AZ (2.18 million); and Rochester, NY (1.43 million).

Table 2: Mid Tier UK Airports (1 million – 5 million passengers annually)

| Airport                    | Terminal Passengers<br>2007 ('000) | Percentage Change<br>2002-2007 |
|----------------------------|------------------------------------|--------------------------------|
| Aberdeen                   | 3,411                              | 33.8                           |
| London City                | 2,912                              | 81.7                           |
| Leeds Bradford             | 2,860                              | 87.4                           |
| Prestwick                  | 2,421                              | 62.9                           |
| Belfast City (George Best) | 2,187                              | 15.7                           |
| Cardiff Wales              | 2,094                              | 47.8                           |
| Southampton                | 1,965                              | 149.3                          |
| Bournemouth                | 1,083                              | 176.4                          |
| Doncaster Sheffield        | 1,074                              | Not applicable (opened 2005)   |
| Exeter                     | 1,012                              | 200.9                          |

Source: CAA

Though the most impressive increases in passenger numbers have occurred in the mid-tier, the UK's four largest airports still dominate. Heathrow, Gatwick and Stansted and Manchester together accounted for 62% of all UK terminal passengers in 2007. Each of these have significant plans for development over the next few years. Heathrow's new Terminal 5 is now open and fully operational. The airport's owners, BAA, are also refurbishing Terminal 3 and 4, and replacing the aging Terminal 2 with an entirely new Terminal East. An announcement is expected late in 2008 on the controversial proposal to add a third runway at Heathrow, expected to cost between GBP 7 billion and GBP 13 billion, to increase capacity from 480,000 to 702,000 aircraft movements per year. As Heathrow currently operates at 98.5% of its existing runway capacity, the need to expand is clear, though the proposal is strongly opposed by numerous groups, including nearby residents and environmental groups.

Elsewhere, a major terminal expansion program began at Stansted in April 2007. Separate applications to increase the annual permitted number of aircraft movements and to add a second runway and terminal both await government consent. As at Heathrow, there is significant public opposition. Government policy supports expansion at Heathrow and Stansted, however this does not extend to Gatwick. BAA has refurbished much of the airport in recent years and had pledged a further GBP 874 million investment in increased terminal capacity over the next five years. As a result of a Competition Commission enquiry into the near-monopoly control that BAA exercises over London's airports, and in Scotland, BAA has very recently moved to sell Gatwick, which has limited growth potential by comparison to Heathrow and Stansted. It is to be anticipated that the future owners of Gatwick may themselves pledge further investment in the airport, particularly in advance of the 2012 Olympic Games, which will be held in London.

The need for investment is reinforced by data from Eurocontrol, a European organization promoting safety in air navigation. All of the four major London airports<sup>2</sup> feature within the top ten most delayed departure airports in Europe. Add Bristol, Belfast, Manchester, Newcastle and London City and a total of nine UK airports all feature in the top 25. The situation is no better in data for Europe's most delayed arrival airports, which tracks with a number of passenger experience surveys published in recent years.

### Best Prospects

There is significant planned investment at many of the UK's airports, primarily to renew and refurbish terminal space and infrastructure. BAA spent over \$60 million in 2007 "to clean, repair and improve existing facilities", according to its Annual Report. The redevelopment of Heathrow, including the construction of a new Terminal East in place of Terminal Two and the adjacent Queen's Building, stands out along with plans for the expansion of

<sup>2</sup> Heathrow, Gatwick, Stansted and Luton.

Stansted, which remains under review. BAA has committed to invest over \$19 billion at its London airports over the next ten years.

The government's 2003 study on The Future of Air Transport also prompted a series of regional development plans. These included proposals for second runways at Stansted, Heathrow and Birmingham, and for runway extensions at Newcastle, Liverpool, Teeside, Leeds Bradford and Inverness. All have since been put on hold, subject to judicial review following a 2005 High Court case brought by campaigners opposed to the plans. Many regional airports have related proposals in place for terminal development and for improved access to surface transport links to the airport. In places, regional strategies have considered options for entirely new airport sites, with London mayor Boris Johnson recently giving his backing to an idea for a new airport in the Thames Estuary. However, these ideas are a long way from being realized.

At the time of writing, the British government has yet to provide a decision on whether or not to allow major development to proceed at Heathrow and Stansted, though it is mindful that capacity in south east England will need to increase to meet anticipated demand created by the Olympics in 2012.

Terminal development plans promise a host of business opportunities, including those in the retail sector, and in baggage handling systems. It is security, however, that has proven the main focus for increased spending in recent years. From August 2006 to December 2007, BAA alone added 2,200 security staff and introduced 20% more security lanes at its London airports. There was related investment in new screening and scanning technology, both for passengers and cargo. UK Trade & Investment estimates that the value of the UK airport security market has now grown to around \$101 million annually. Moreover, the UK is at the leading edge of airport security technology, with biometric iris recognition systems in use at four major airports, and with RFID systems on trial, with the main opportunities and the largest projects typically associated with BAA, the country's largest airport operator.

## Key Suppliers

The UK is home to a number of the world's leading companies in the airport sector, including consultants and architects as well as specialist, niche providers of security and environmental monitoring technology. Engineering and project management firms such as Arup, Atkins, Halcrow and Vector Management are active throughout the UK, and are engaged in major projects in Europe, the Middle East and Asia. In high technology, QinetiQ is well known for its defence and security expertise, but also provides a range of products and services in the aviation and transportation sectors, including the Tarsier runway debris monitoring system. Smiths Detection is a global leader in security technology, and the main supplier of screening equipment for passengers and cargo to BAA. In other areas, air navigation in the UK is dominated by NATS, while Serco is increasingly well known overseas as an air traffic service provider, operating 54 air traffic control towers in the United States. The UK has significant expertise in the airport sector, and consequently is to be regarded as a competitive and challenging market for U.S. suppliers.

## Prospective Buyers

By the very nature of the sector, airport equipment involves a wide range of potential buyers, not just the airport operators but also air navigation services, ground handling agents, security firms and government agencies such as the police and the UK Border Agency. The airport operators remain the focus for most procurement, however.

## BAA

BAA, the former British Airports Authority that was privatized in 1986, has long been dominant. The company was acquired by Grupo Ferrovial, a Spanish conglomerate, in 2006. BAA's position in the market is contentious, having near-monopoly control of airports in London<sup>3</sup> and again in Scotland, through its ownership of Glasgow,

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<sup>3</sup> BAA owns Heathrow, Gatwick and Stansted

Edinburgh and Aberdeen. Southampton is also owned by BAA. Airlines argue this position allows BAA to charge excessive landing fees, while passenger groups allege the lack of competition gives BAA no incentive to improve infrastructure and terminal space. The Competition Commission, in a review that has yet to conclude, has reportedly recommended that BAA divest both Gatwick and Edinburgh airports. BAA, at the time of writing, appeared to concur by soliciting bids for the sale of Gatwick.

Other Leading Airport Operators

The two other main airport owners are TBI, a subsidiary of the Spanish-owned Abertis; and Manchester Airport Group (MAG), owned by the local authorities in Greater Manchester. Other leading UK regional airports are typically owned by a combination of the local authorities, private companies, and private equity. Beyond BAA, TBI and MAG, however, procurement tends to be conducted by individual airports, rather than on a group-wide basis.

Table 3: Leading UK Airport Owners



## Market Entry

As the largest airport operator, BAA is the main source for prime contract opportunities that arise in the UK, though many firms seek work as sub-contractors or through a project-related consortium. BAA Supply Chain manages procurement at a group level, serving each of the airports operated by the company, and BAA additionally participates in the online Airportsmart procurement portal ([www.airportsmart.com](http://www.airportsmart.com)). It is typical for companies to initially make contact with a BAA business liaison team at one airport, perhaps Stansted or Heathrow, and then be referred upwards to a BAA Supply Chain purchasing team, depending on the company's requirements.

Larger programs are subject to European Union (EU) procurement regulations, where the value of the project is in excess of:

|          |   |      |           |               |
|----------|---|------|-----------|---------------|
| Supplies | - | Euro | 422,000   | (\$582,500)   |
| Services | - | Euro | 422,000   | (\$582,500)   |
| Works    | - | Euro | 5,278,000 | (\$7,285,426) |

*Thresholds applicable as of December 31, 2007*

Opportunities covered by the EU procurement rules are advertised online at: <http://ted.europa.eu>. This service is also accessible via the website of the U.S. Commercial Service at the European Union, [www.buyusa.gov/europeanunion](http://www.buyusa.gov/europeanunion).

The regulatory environment has seen transformation in recent years, with European organizations taking over responsibilities from individual national authorities. The European Aviation Safety Agency (EASA), based in Cologne, Germany, today has responsibility for aircraft and product certification as well as for rules related to the design and maintenance of aircraft products and parts. In addition, EASA sets the standards for organizations involved in the design, production and maintenance of aircraft products and parts. There is ongoing consultation on the extension of EASA's role to include airports, air traffic management and air navigation safety. In the UK, the Civil Aviation Authority (CAA) acts as the executive arm of EASA, and additionally serves to develop and uphold national regulations in areas where EASA does not yet have full oversight, such as flight crew licensing and air traffic management.

## Market Issues & Obstacles

The sector faces significant challenges from groups opposed to airport expansion, including local residents and environmental campaigners. Heathrow's Terminal 5, opened in March 2008, was the subject of a four year public enquiry, and it took a full eight years from the initial planning application through to the government's approval of the plans in November 2001. At Stansted, a BAA application to increase the number of aircraft movements and to lift the limit on passenger numbers remains under consideration at the Department for Transport, two years after the application was first rejected by the local council. The impact of aviation on the environment is a subject of popular and political concern, and all airports in the UK face constraints in increasing capacity and expanding airport sites and transport links.

The Competition Commission's enquiry into BAA's near-monopoly ownership of airports in London and Scotland promises further important changes. BAA has already put Gatwick airport up for sale in response to the enquiry, and the company may in due course be forced to sell Stansted and either Glasgow or Edinburgh. BAA and its owners, Ferrovial, will doubtless contest the full implementation of the Competition Commission's findings. In an unrelated development, Ferrovial has recently sold Belfast City airport to an infrastructure fund owned by ABN Amro.

The impact of these changes to the position of BAA and Ferrovial in the market is difficult to determine at this early stage, but with new ownership there is the potential for renewed investment in some of the UK's leading airports. The availability of capital, however, remains a concern in the current economic climate. AIG has sold its stake in

London City airport, and with private equity backing several UK regional airports, further changes can be expected.

## Trade Events

Airport Operators Association (AOA) Conference and Exhibition  
November 17-19, 2008  
ExCel, London, UK  
[www.aoa.org.uk](http://www.aoa.org.uk)

Airports Council International (ACI) – Europe Annual Congress and Exhibition  
June 15-17, 2009  
Manchester, UK  
[www.aci-europe.org](http://www.aci-europe.org)

InterAirport  
October 6-9, 2009  
Munich, Germany  
[www.interairport.com/europe](http://www.interairport.com/europe)

## Resources & Key Contacts

Airport Operators Association (AOA)  
[www.aoa.org.uk](http://www.aoa.org.uk)

British Aviation Group (BAG)  
[www.sbac.co.uk/pages/64944094.asp](http://www.sbac.co.uk/pages/64944094.asp)

British Airport Services & Equipment Association (BASEA)  
[www.basea.org.uk](http://www.basea.org.uk)

Civil Aviation Authority (CAA)  
[www.caa.co.uk](http://www.caa.co.uk)

EU Tenders Database  
[www.buyusa.gov/europeanunion](http://www.buyusa.gov/europeanunion)

## For More Information

The U.S. Commercial Service in the London can be contacted via e-mail at: [Jestyn.Cooper@mail.doc.gov](mailto:Jestyn.Cooper@mail.doc.gov);  
Phone: 44 (0) 20 7894 0419; Fax: 44 (0) 20 7894 0020; or visit our website: [www.buyusa.gov/uk](http://www.buyusa.gov/uk)

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