

# DARKNESS AT THE EDGE OF TOWN (Part 2)



BAA plc Chief Executive, Mike Hodgkinson  
Photograph courtesy of RPM Photographic

Does London, indeed Britain, want another transport disaster, to accompany the railways and the Tube? That is the first question to be answered by the Government's White Paper on Aviation, due out after due consultation next year. The second question is: does the Government truly understand the umbilical relationship between aviation and the UK economy? Despite the strains now showing at Heathrow, BAA Chief executive [Mike Hodgkinson](#) sounded remarkably upbeat about future prospects for his company and industry in his meeting with Locum Managing Director [James Alexander](#) and Non-Executive Director [Tony Hodges](#).

Cometh the hour, cometh the mantra. 'If you don't invest in the basic fabric it will catch you out.' 'If Government is not prepared to invest in the national infrastructure, eventually it collapses.' 'The core issue is how does it invest so that we still appear to be a first-world country rather than a third-world country.' Mike Hodgkinson, Chief Executive of BAA, is in expansive mood as our interview unfolds.

Yet, if you want to know how congested our airports could become, Mike will provide all the grisly details. 'Do you want to get to the point where people have to queue outside Terminal 1 to be allowed into the building? Is this what you want London to be like?' He does not speak with forked tongue. These days we all expect to wait at least 20 minutes, routinely, for aircraft to park at Heathrow. British Airways' outspoken chief executive, Rod Eddington, has been reported as predicting that, without improvements, Heathrow will soon resemble a scene of futuristic urban horror, *Blade Runner* brought to the edge of London.

Hodgkinson is frank: his company and the aviation industry need to ram home the point that airports must not be allowed to go the way of railways and Tube. Perhaps the disasters which characterise the UK's transport system are, perversely, helping his cause. Perhaps that is why he sounds confident about the outcome of the Terminal 5 planning process (BAA's seven-year itch) and optimistic about next year's Aviation White Paper. 'I think the Government now understands how crucial aviation is to the

UK economy,' he avers. (This is news. How recent is this Damascene conversion?) 'I think it's shifted in the last two years. One, there's the absolute disaster in the railways. Two, there's the demise of the Ford Fiesta (Hodgkinson's euphemism for the old economy) and the rise of new economy jobs.'

Here is the root of BAA's confidence. It is not just that London's image is put at significant risk by creating infrastructure and congestion at the gateways, it is that there is an upside available to the economy if London's airports continue to prosper. 'People are beginning to realise that knowledge-based jobs are the jobs of the future and that Britain needs them. These added-value jobs are global and, one, they can locate anywhere but, two, they do locate where there is good air transport.' Hodgkinson cites the example of Ericsson's HQ move from Sweden to London 'for tax and the only place where European general managers can arrive in the morning for management meetings and depart in the evening. These jobs are mobile... one reason (for upping sticks) can well be air transport. So the Government has embarked on its consultation exercise knowing there is a quality issue but also that the consequences of lack of capacity are significantly greater than previously realised. This is not an esoteric debate about small sections of society or providing means of travel for rich people – everyone travels all of a sudden. This, together with job creation, has worked in our favour. With no efficient rail system and roads getting congested, airports take on a different dimension.'



Without increasing capacity, could Heathrow go the way of the railways and the Tube?  
 Photograph courtesy BAA Picture Library of BAA plc

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**Table 1: Best European cities for external transport links (1999)**

Best external transport links		Best city to relocate a business	
London	1	London	1
Paris	2	Paris	2
Frankfurt	3	Frankfurt	3
Amsterdam	4	Amsterdam	4
Brussels	5	Brussels	4
Zurich	6	Barcelona	6
Munich	7	Madrid	10
Manchester	10=	Munich	10
Dusseldorf	10=	Berlin	11
Milan	10=	Dublin	12
Copenhagen	13	Lisbon	13
Barcelona	14	Manchester	14
Glasgow	15	Geneva	15
Geneva	16	Dusseldorf	16
Rome	17=	Glasgow	17
Lyon	17=	Stockholm	18
Hamburg	17=	Hamburg	19
Athens	20=	Lyon	20
Stockholm	20=		

Source: Healey and Baker European cities monitor 1999



*The proposed site for Terminal 5 at Heathrow*  
 Photograph courtesy BAA Picture Library of BAA plc

There seems to be little ground for debate here, particularly when observing how UK planning constraints have hamstrung its airports' competitiveness in recent years. The crucial comparison is with Paris Charles de Gaulle, which, with capacity to spare, is predicted to overtake Heathrow soon as Europe's main aviation hub. Passenger movements are up to 50 million this year versus Heathrow's 65 million. Hodgkinson agrees that 'Paris is the biggest threat to London. Ideally in the air transport market you need a destination and an airport. Frankfurt's not much of a destination. Amsterdam isn't; it survives on transfer traffic. London and Paris have the originating traffic.' In the crucial area of decision-making, the French have the edge. 'Partly because of space, partly because of local mayors' interest in economic development, they are much more capable of making big, strategic planning decisions ... and now even Air France is starting to get better. In Paris, they were looking for a site for the third airport, decided it was all too difficult, so they said, "we'll build two more runways at Charles de Gaulle in the meantime". When I started at BAA nine years ago, those two runways were not even thought of and they are now both up and running.' The comparison with London's

inability to get on with a mere terminal, in seven years, is telling. Do not raise the issue of another runway in the South East. That would create 'an entirely different debate.' The upcoming White Paper will have to address that debate, however, with Gatwick looking at 40 million passengers and Stansted 25 million and then 35 million in the not-too-distant future.

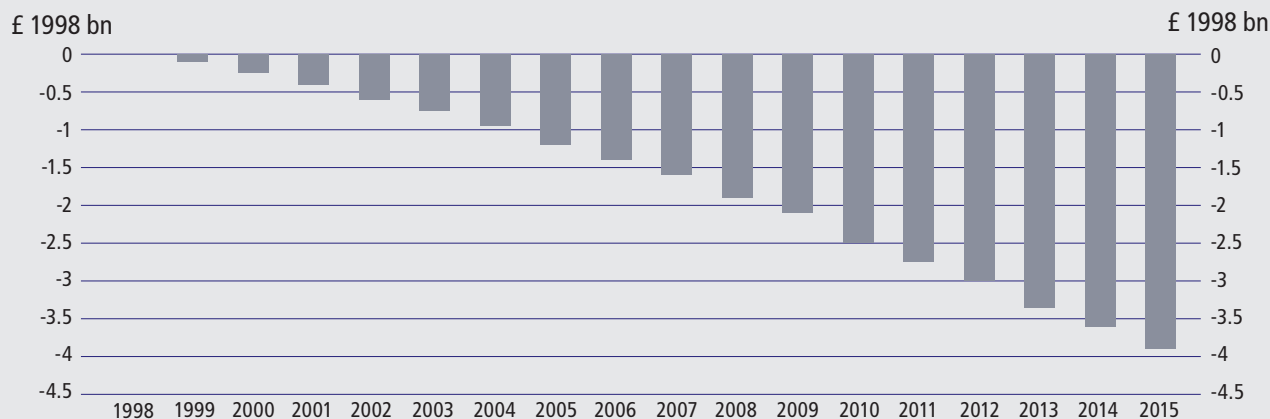
Nonetheless, yet again, Hodgkinson is sounding positive. The constipation of the planning process has eased somewhat. He is proud to have reached agreement at Gatwick without an enquiry and is trying to do the same at Stansted: 'Save the money on lawyers' fees and a public enquiry and put it into the community.' This is more than expedient, time-saving sense. It also fits with BAA's 'broad agenda', its genuine belief in good citizen behaviour. Bus services to Gatwick from Crawley and Horley, improved access, community projects, support for high unemployment areas in northeast London to reduce the risk of new-town development near Stansted, all are examples of BAA working overtime to avoid T5-style public enquiries. Win-win rather than lose-lose.

But is the UK Government prepared, in its second term, to take a more strategic view, prepared for bold, visionary moves that might enhance its place in history? Hodgkinson is remarkably optimistic. 'I think it is setting itself up to be capable of moving much more towards a kind of French planning system.' (We can euphemistically summarise this as 'before we make a decision, let's decide how much the damage is worth, almost have a public enquiry on how to allocate the damages, whilst you get on with building the runway'). 'I think they are beginning to get their minds round that kind of process. I am sure we'll see revised planning rules coming into place.'

Whilst government, local and national, decides how to comport itself, the world turns. Major airlines are saying: 'We don't believe big cities will have new runways' – and even the French are, belatedly, running into flak on this front – 'so we'll order the A380 (superjumbo) and land more people on the old runways.' Intriguingly, these newer, bigger planes can make environmental sense too, important to BAA as well as those protesting on noise and emissions. The A380 is expected to carry twice as many passengers as the 747 with no more noise, arguably creating half the decibels per passenger. Hodgkinson believes

**Table 2: Economic impact of restricting aviation**

GDP effect of 25 million fewer passengers by 2015



Source: Oxford Economic Forecasting

that the aircraft manufacturers and airlines 'have done a lot which is not that well publicised on the environmental front. Apparently the latest 737 is cheaper to run, even after costing £60 million, than the 737-200 fully depreciated, with lower running costs and more seats' (and thus significantly greater energy efficiency per passenger). This CEO is not, however, a naïve believer in corporate goodwill to deliver environmental progress, particularly across the Atlantic. 'You've got to keep up the pressure to ensure improvements.' (So put your faith in the American public rather than American companies? 'No. You're wasting your time. Just put your faith in the Europeans.')

Again there is a whiff of Good Corporate Citizen in the air. Unusually, there is little need for scepticism in this instance. BAA's 'broad agenda' is deeply rooted and is one thing that Mike Hodgkinson is happy to ascribe to his predecessor, Sir John Egan.

Sir John inculcated a 'philosophy' which tied company success and world-class status to what BAA directors describe as 'the balanced scorecard'. 'We will make money,' says Hodgkinson 'if we are seen to ride with the angels.' He cites the approach to repair of the Heathrow Tunnel as a classic example of BAA priorities. 'If we have an issue of safety, that costs, say, £10 million, we don't even think about it ... (whilst) others might ask for cost-benefit analyses, etc. Safety and security are top priority. You can't count short-term cost. If you run to a broader agenda, you will have a public perception that no-one wants to cross.' He admits that the thesis cannot be proved, 'but it hasn't done too badly so far ... it's even accepted in the City'. After all, BAA was reviewed but not broken up, and analysts tend to say 'maybe that's why they don't have rows with the regulator'.

It helps that BAA is palpably well run. 'We have genuinely made big improvements to cost and commercial revenue and put ingenuity into value management of the building cycle, as a result of

high quality management ... We've been fortunate to make general improvements that fund things like safety developments.' With privatisation less consistently applauded of late, is BAA not a rare example of success? 'Privatisation worked for us because new management was brought in to work alongside people who were good at running airports. There are other examples of privatisation where the traditional people have been completely ignored and regarded as lepers. Surprise, surprise, the new management doesn't know what it is doing half the time.'

Whilst Hodgkinson is prepared to state unequivocally that 'we have been uniquely successful largely because of that philosophy' (i.e. Egan's broad agenda), he is clear about the differences at BAA under his leadership. On style: 'I think we have a lot more debate.' On direction: 'There is more focus on the core business, less emphasis on retail ventures. John struggled to see how we would achieve growth internationally but we are now getting international business by reputation, like Melbourne, and the ball is rolling ... we are becoming the airport operator of choice.' BAA is now involved in a dozen airports outside the UK, handling perhaps 80 million passenger movements (versus approximately 125 million in the UK), but this still only represents about 2% of BAA income. Hodgkinson is unperturbed as, again, he takes the long view. 'It is all profitable and therefore has City support. The world is getting smaller and the way we run the business here quite genuinely fits all the overseas operations we have seen so far. The big challenge will be when we get the consultancy for JFK and La Guardia ... can we travel there successfully? If we do then it's all over for everyone else.'

There is a delicious irony in the idea of a British company taking skills in mall retailing and applying them in the US, home of the mall. Less tasty is the fact that the world's best and most successful airport operator is still waiting to open a new

terminal, on the site of a sewage farm no less, to relieve congestion in the world's busiest and arguably most overcrowded major airport, forerunner of *Blade Runner* no less. Thank heavens for Mike Hodgkinson's confidence: that the government is beginning to understand, that the regulator knows that breaking up BAA would not solve any problems or deliver investment required, that T5 construction will start later this year.

Contemplating that confidence – and its apparent conflict with the current state of play at London's congested terminals – we finally understood its source. It is not just that BAA's philosophy places it on the side of the angels, though it does. It is not just that BAA is too well run for regulators to tamper with it unnecessarily (there are other utilities with more pressing calls for attention, after all). No. The answer lies in the celebrated BAA forecasting model. Deep in the bowels of BAA's extraordinary data base sits a legend called Stan Maiden. He has been at the company since he was a trainee, for over 30 years. He models future traffic growth with amazing accuracy and as such is Hodgkinson's secret weapon, as he was Sir John Egan's. Stan Maiden has demonstrated that, with the single exception of war, nothing disturbs the econometric fit between BAA growth and UK gross domestic product. Whatever the growth in GDP, air traffic grows by a factor of 1.8 to 2.2 times that growth. This is Hodgkinson's killer stat. It demonstrates the umbilical relationship between air transport and UK economic health. It means that no government can afford to let the storm clouds over Heathrow continue to build. It explains why Mike Hodgkinson talks about 'the best job I ever had' and keeps smiling despite the planning delays.

It may be dark out there, but there is a light at the end of the runway and it is not just a superjumbo landing. It may be a whole new future for British aviation and, indeed, British planning. We can but live in hope.