IoD proposals for Airports Commission
Short and medium term options

19 May 2013

Dear Sir/Madam,

We are grateful for the opportunity to present our proposals on options for making best use of existing capacity in the short and medium term.

About the IoD

The IoD is an independent, non-party political organisation of approximately 36,000 individual members. The membership is drawn from right across the business spectrum – 80% of FTSE 100 companies and 60% of FTSE 350 companies have IoD members on their boards, but the majority of members comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-ups.

In the context of the Airports Commission's work, it is important to stress that the IoD does not represent the aviation industry, but businesses in all sectors of the economy and from all parts of the UK.

Structure of our submission

Our submission draws on our report, *Flying into the Future,* published in December 2012 (http://www.iod.com/influencing/policy-papers/infrastructure/infrastructure-for-business-flying-into-the-future), where the proposals are explained in more detail. This document is structured into four parts:

1. Making best use of existing capacity.

2. Integrating air and rail.

3. Reducing taxes.

4. Improving the visa and border regime.

In our view, any plan for aviation needs to be holistic in nature. It needs to consider the end-to-end passenger journey, which includes getting permission to enter the UK in the first place (visas and borders), the cost of the ticket (taxes), getting to and from the airport (integrating air and rail) and the availability of routes and timely arrivals and departures (making best use of existing capacity, and ultimately adding new hub capacity).

Too often in the UK these aspects of journeys have been thought about in individual silos. The Airports Commission has a great opportunity to think in a more holistic way.

Making best use of existing capacity

Although all of the airports around London are set to be full by 2030 or so, at present only one airport in the UK is full. The number of flights at Heathrow has exceeded 470,000 for seven of the last ten years.[1] The UK is not currently short of airport capacity, but is short of hub capacity. If hub capacity were not important, airlines would not continue to pay inflated prices for slots at Heathrow, but would be moving parts of their operations to other airports.

We will be making separate proposals on adding capacity. For the purposes of this submission, we would note that, given that it will take a number of years before new runways can open, the aim of short term measures should be to spread demand around our airports as much as possible, to help alleviate the pressure on Heathrow and support businesses across the UK.

We have five proposals for making best use of existing capacity.

1. Continue with 'operational freedoms' at Heathrow, but do not introduce 'mixed mode'.

The crucial limiting factor for operational freedoms is that these procedures can only be used once certain delay thresholds have been met. Operational freedoms are there to limit delays, reduce stacking, and help the airport recover from disruptions. They do not allow the airport to increase the number of flights beyond the 480,000 limit nor increase the number of scheduled night flights.

Operational freedoms appear to have had some success. Although we have not yet seen a full analysis of the Phase 2 trial, the programme does appear to be improving resilience at Heathrow. During Phase 1, operational freedoms movements totalled 1,802 out of a total of approximately 56,260 Westerly arrivals, or just over 3%.[2] Arrival punctuality during Phase 1 improved compared to the baseline, although other factors, including a milder winter, may also have helped.

By contrast, mixed mode would allow Heathrow to use both runways for landings and departures all of the time. This could increase the number of flights by perhaps 10%, although part of this extra capacity would likely be used to increase the airport's resilience. Mixed-mode would, however, come at the expense of respite for hundreds of thousands of residents – a large increase in noise for a small increase in the number of flights. The planning inquiries that the introduction of mixed-mode would require could take almost as long to complete as those needed for a third runway.[3] For these reasons, we do not recommend that mixed-mode be introduced.

We recommend that, subject to positive results being confirmed for Phase 2, operational freedoms at Heathrow should be allowed to continue beyond the trial phase.

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[1] CAA, Airport Statistics 2012, Table 04 2
http://www.caa.co.uk/default.aspx?catid=80&pagetype=88&sglid=3&fld=2012Annual
[2] Heathrow Airport, *Heathrow Operational Freedoms Trial: Phase 1 Report,* April 2012
http://www.heathrowairport.com/static/Heathrow_Noise/Downloads/PDF/Heathrow_Operational_Freedoms_trial-Phase_1-report.pdf
[3] This point about the length of planning inquiries was confirmed to me by both the Department for Transport and Heathrow Airport.

2. Reduce the level of regulation of Stansted and Gatwick

The CAA has published its 'Minded To' determination for whether Gatwick has substantial market power,[4] and is currently consulting on its 'Minded To' determination for Stansted.[5]

In our view, now that both Gatwick and Stansted have been sold, neither would appear to have substantial market power any longer. Freeing both airports from the wider bureaucracy associated with price-capping may allow them to compete better with Heathrow and make the best use of their spare capacity. Competition is always preferable to regulation. The current price control arrangements expire in April 2014, the appropriate time for any deregulation to come into effect.

In addition, "fifth freedoms", which are already enjoyed by airports outside of the South East, should be extended to Gatwick, Stansted and Luton. These freedoms allow overseas airlines to stop-over on longer journeys (for example, from Singapore to New York stopping at Gatwick), increasing the number of potential routes on offer from these airports and encouraging greater competition with Heathrow.

3. Promote airports outside of the South East

Any solution that aims to make the best use of the UK's existing capacity should promote the non-South East airports.

With the possible exception of Birmingham airport, the non-South East airports are located too far from London to be a practical alternative to Heathrow for Londoners. The bigger problem is that millions of people living outside of the South East travel to the main London airports for short-haul journeys, rather than flying from their local airport. According to Bristol Airport, in 2010, 6.1 million passengers with an origin or destination in the South West and South Wales flew from the London airports (primarily Heathrow and Gatwick), over half of whom were travelling to short-haul destinations.[6]

In a competitive market, it is not for government to determine where airlines choose to locate and where passengers should fly from, but the Government can encourage a change to travel patterns and promote non-South East airports overseas. Four measures could be particularly useful:

- First, a campaign should be launched in the UK and abroad to promote the benefits of airports outside the South East, not least in terms of lack of congestion. British embassies and trade missions abroad should also promote non-South East airports as possible point-to-point locations for new routes. This should be linked to a wider tourism strategy to promote areas outside of London as tourist destinations in themselves.

- Second, code-sharing between rail and air should be introduced on the West Coast Main Line in order to encourage greater use of Birmingham airport. Birmingham airport is only 1h 10m from Euston, with a service every 20 minutes during the day. Code-sharing could increase the attractiveness of Birmingham airport, reducing peak time rail

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[4] Civil Aviation Authority, *Consultation on Gatwick market power assessment: Summary* http://www.caa.co.uk/docs/33/CAP%201028%20Gatwick%20MPA%20Summary.pdf
[5] See http://www.caa.co.uk/default.aspx?catid=78&pageid=12275
[6] Bristol Airport, *Giving wings to airports across the UK: Bristol Airport's recommendations for a balanced aviation policy,* October 2012, p.5 http://www.bristolairport.co.uk/about-us/planning-and-development/~/media/files/brs-airport/content/Giving-wings-to-airports-across-the-UK.ashx

fares for air passengers and allowing the use of any relevant rail service, without the restrictions of advance or off-peak tickets.

- Third, promoting the non-South East airports should also involve surface access improvements and a reduction in the burden of regulation.

- Fourth, introducing a *unilateral* open access policy for airports outside the South East, moving from the current *reciprocal* open access arrangements for these airports, could help to facilitate inward investment in new routes.

4. Accelerate plans to open up Channel Tunnel passenger rail services to competition

There is now an excellent high speed rail network to destinations in France, Belgium, the Netherlands and parts of Germany. Running direct trains from London to Amsterdam, Frankfurt and other destinations beyond Paris and Brussels has the potential to replace a significant proportion of point-to-point journeys between these destinations and London, benefitting the environment and helping to relieve some of the pressure on Heathrow.

The Channel Tunnel has plenty of space available, with less than 50% of passenger capacity currently used. The Eurostar monopoly and high access charges levied by Eurotunnel have meant that prices can sometimes be astronomical – far more than flying, even including travel to the airport. But even so, rail now accounts for around 80% of the market share for travel between London and Paris and Brussels.[7] Although destinations such as Amsterdam and Frankfurt are further than Paris and Brussels, it illustrates the potential for competition to drive further air traffic to rail.

There are several issues hindering the development of competition through the Channel Tunnel, as the House of Lords European Union Committee noted:[8]

- High access charges for the Channel Tunnel itself;
- Difficulties in setting up UK border controls at other European stations;
- Slow decision-making on the part of the Intergovernmental Commission (the body responsible for managing all aspects of the operation of the Channel Tunnel on behalf of the UK and French governments), particularly on safety issues;
- Poor provision of through-ticketing.

Assuming that Deutsche Bahn's rolling stock is not delayed any further, there is no reason for services to Amsterdam and Frankfurt to start any later than 2015. We would also hope to see other operators entering the market, and Eurostar to run direct services to more destinations. These will inevitably be commercial decisions, but the remaining issues need to be resolved as quickly as possible in order to encourage a further shift from short-haul flying to rail.

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[7] See http://www.eurostar.com/UK/uk/leisure/about_eurostar/press_release/press_archive_2011/20110131_eurostar_contributes_to_rail_renaissance.jsp

[8] House of Lords European Union Committee, 24th Report of Session 2010–12, *Tunnel vision? Completing the European rail market,* December 2011 http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/EuropeanRailMarket/RailReport.pdf

5. Ensure that the remaining parts of the Single European Sky package are implemented swiftly

European airspace is amongst the busiest in the world, but air traffic management is fragmented and dominated by national monopoly service provision. This leads to longer flight paths than necessary, more delays and higher costs. According to the European Commission:[9]

- There were 19.4 million minutes of delay related to en-route Air Traffic Flow Management in 2010;
- On average, each flight is 49km longer than a direct route;
- Fragmentation of airspace leads to €4 billion of extra costs each year.

In 2010, European airspace handled 9.5 million flights, with up to 33,000 flights on busy days. In 2020, the number of flights is forecast to increase to 17 million per annum, with up to 50,000 on the busiest days.[10] Without reform, delays and costs are likely to increase still further.

The UK and Ireland already have a functional airspace block, which commenced in 2008 and has been estimated to have saved £35 million, 50,000 tonnes of fuel and 150,000 tonnes of CO_2.[11]

Parts of the Single European Sky have already been implemented, and the IoD would encourage the remaining parts of the package to be implemented swiftly across the EU.

Integrating air and rail

The UK has suffered from the failure, over many decades, to implement an integrated transport policy. There is still a pressing need to ensure that different transport modes connect well with each other to facilitate seamless end-to-end journeys.

The recommendations in this section do depend somewhat on the airport capacity solutions that are actually chosen. In a world of unlimited resources, we would hope that most of the recommendations below would be adopted, but we recognise that finite resources mean that those airports building new runways should be prioritised.

We have four recommendations for better-integrating rail and air.

1. Build the Heathrow Hub and run the HS2 line directly through Heathrow.

The IoD believes that the Heathrow Hub is an excellent plan that could offer transformative benefits.[12] The idea has several elements, including:

- The construction of a new station to the North of the airport on the existing Great Western Main Line. This would bring direct services to Heathrow from all cities currently on the Great Western line – Reading, Swindon, Bristol, Cardiff, Exeter etc.

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[9] European Commission, Single European Sky
http://ec.europa.eu/transport/modes/air/single_european_sky/
[10] European Commission, Single European Sky
http://ec.europa.eu/transport/modes/air/single_european_sky/
[11] Department for Transport, *Draft Aviation Policy Framework,* July 2012, p.40
http://assets.dft.gov.uk/consultations/dft-2012-35/draft-aviation-policy-framework.pdf
[12] For more details, see http://www.heathrowhub.com/

- At the site of the Heathrow Hub station, the construction of an airport terminal (which would also have space for car parking). Upon leaving the train, passengers would check in directly, pass through security and transfer onto a fast airside tracked transit, which would take them directly to their aircraft satellite.

- Changing the route of HS2 so that it runs through the Heathrow Hub, before following roughly the route of the M40 Northwards. This would link all cities connected to the planned HS2 with frequent direct services to Heathrow – Birmingham, Manchester, Liverpool and eventually Sheffield, Leeds, Newcastle etc.[13]

- Providing a direct connection from HS1 to HS2, with no need to interchange. This would provide direct connections between Heathrow and cities on the HS2 route, and easy interchange for cities on the Great Western line, to Europe, without the need to travel through central London on the Underground.

Currently, Heathrow only has direct rail access from London. The Heathrow Hub would transform the airport's rail connectivity to the rest of the UK. It should be implemented whether or not Heathrow expands, but if Heathrow is chosen as the location for the UK's main hub airport, it would seem particularly odd not to run the high speed line directly via the airport:

- If Heathrow *does not* expand, the Heathrow hub would allow passengers to travel direct to the airport in less than two hours from most key cities, and less when the second phase of HS2 is complete. This could free up much-needed capacity at Heathrow by replacing domestic flights on a number of key routes, while enabling the airport to continue to draw in hub traffic.

- If Heathrow *does* expand, the Heathrow Hub could help to support further long-haul routes, by ensuring that a greater proportion of hub traffic from the Midlands and the North arrives and departs Heathrow by rail rather than air.

Compared to the current HS2 route and a Western connection to Heathrow, the Heathrow Hub and the altered HS2 route could save £2.2-3.6 billion. It would also greatly enhance the connectivity benefits of HS2, while increasing journey times by just 3 minutes.

Should the Heathrow Hub plan not be implemented, the next best solution would be to build the spur line to Heathrow from HS2 during the first phase rather than the second, bringing it forward by six years, and to press ahead with the Western rail link.

2. Improve rail services to Gatwick

Gatwick Airport is currently the UK's best connected airport by rail, with the rail station serving 12.8 million passengers a year, more than a third of Gatwick's total and more than any other UK airport station.[14] Improvements to the airport station are underway, and the expanded Thameslink service will from 2018 provide significant extra capacity to the City and to destinations North of London, and will interchange with Crossrail at Farringdon.

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[13] This would also free up Old Oak Common for Crossrail services to connect with the West Coast Main Line, relieving the pressure on commuter services into Euston.
[14] Gatwick Airport, *Master Plan,* July 2012, p.66
http://www.gatwickairport.com/Documents/business_and_community/Gatwick%20master%20plan/2012-07-18-GAL_Masterplan.pdf

Peak time congestion is a major issue. The merging of the Gatwick Express with services to and from Brighton helped to increase capacity on the commuter route, at the expense of reducing the quality of service for airport users. The enhanced Thameslink service should reduce peak-time overcrowding into London Bridge, but capacity issues on the Victoria route remain. Further work is likely to be needed on the Brighton Main Line, including at East Croydon, to increase the number of Victoria services. Once that occurs, it should be possible to re-introduce the dedicated airport express service.

There is a good case to improve rail services to Gatwick airport from destinations North West and West of London. Possible improvements could include:

- Increasing the frequency of services on the West London line and terminating them South of Clapham Junction, allowing more frequent, direct services from destinations on the West Coast Main Line (Milton Keynes, Watford Junction etc) to Gatwick Airport.

- Constructing an interchange at Old Oak Common between the West London line and Crossrail, providing one-change access to Gatwick from destinations in West London (provided non London Overground services terminated South of Clapham Junction).

- Increasing capacity between Gatwick Airport and Redhill, allowing more frequent services to Reading and other destinations in Surrey and the Thames Valley.

3. Extend Crossrail to Stansted

Stansted has good road access, particularly following the widening of much of the M25 and once the introduction of hard-shoulder running on the remaining stretches of the M25 North of London is completed. Its rail access, by contrast, is extremely poor, with the Stansted "Express" taking around 45 minutes to Liverpool Street, and infrequent and slow services to destinations North and West of the airport.

Several suggestions have been made for improvements to the rail service from London to Stansted, and we recommend that further work be undertaken to examine the options in greater detail:

- One option would be to increase the number of tracks on the line to Liverpool Street from two to four, allowing direct fast services. This would, however, be expensive, and require the demolition of a number of houses on the route.

- A second option would be to extend Crossrail out to Stansted, via either Stratford or Canary Wharf, connecting with the current railway to Stansted at Sawbridgeworth.[15] This option would provide fast and frequent connections to East London, the City and Central London. Because it would connect large parts of London with a direct Stansted rail service, rather than just Liverpool Street and Tottenham Hale, this option would be preferable to increasing the speed of the Stansted Express service. Cost, again, would be an issue, especially given that destinations North of Stansted (including Cambridge) are already well served from London via the East Coast Main Line.

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[15] This proposal has been developed by the London Stansted Airport Delivery Company. A variant was also highlighted, but not recommended, in Tim Leunig, *Bigger and quieter: The right answer for aviation,* Policy Exchange and Centre Forum, October 2012, p.59
http://www.policyexchange.org.uk/publications/category/item/bigger-and-quieter-the-right-answer-for-aviation

4. Introduce smart ticketing and code-sharing between rail and air

To make the most of better rail services to airports, ticketing systems also need to be radically improved.

For most airports, the most relevant improvement would be to introduce smart ticketing, removing the need to purchase a ticket prior to travel and making journeys to and from the airport faster and more flexible. The existing rail services to Gatwick, Stansted, Heathrow and Manchester, for example, could all benefit from smart ticketing:

- For the London airports, it would seem most sensible to extend the existing Oyster system to the airports, meaning that visitors to London need only purchase one smartcard. The Oyster system is well equipped to deal with varying charges, and to add charges for premium services onto season tickets. Riverboat services and the new Emirates Air Line are good examples of this.

- Greater Manchester is also planning to introduce its own smartcard, and it should include airport public transport services, including the Metrolink extension to the airport, which is due to open in 2016.

For long distance services to airports, the most important improvement would be to introduce code-sharing between rail and air:

- As we recommended in the 'Making best use of existing capacity' section, code-sharing could benefit Birmingham Airport.

- Code-sharing would also be vital to encourage passengers who currently take domestic flights to Heathrow for the first leg of their journey to travel to the airport by train instead. As explained above, the Heathrow Hub and HS2 (or even a spur line from HS2 and a Western access line from the Great Western Main Line) could offer extremely attractive journey times to the airport from a number of key cities. But high fares at peak times and a lack of flexible tickets could potentially put passengers off. Code-sharing on both HS2 and the Great Western Main Line would offer lower fares for passengers booking their rail and air journeys together, and would allow arriving passengers to take the first available train after landing, whether or not their flight is delayed or arrives early.

Reducing taxes

The UK is levying the highest taxes on flying of any country in the world. The Netherlands found that their air passenger tax generated revenue of €300 million but cost the wider Dutch economy €1.3 billion.[16] If Air Passenger Duty (APD) has a comparable damaging effect on the UK economy, given the revenue raised from APD, it would cost the UK £12 billion a year.

We have three recommendations in this area.

1. Freeze APD in cash terms

This is a necessary first step, and would send out a positive signal.

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[16] SEO Economic Research http://www.anvr.nl/_upload/NewsFiles/ANVR_Rapport090309-1382.pdf

2. Offset the impact of the EU Emission Trading System (ETS)

APD is levied at a much higher rate than the environmental costs of flying would suggest:

- In 2008, the DfT's Aviation Cost Assessment found that at the 2007 rates of APD, aviation covered its climate change costs with around £100 million to spare.[17] Since 2007, APD rates have risen substantially.

- As the Director General of the IATA has pointed out, "at current levels for carbon credits, the APD could more than offset the entire emissions of the global air transport industry".[18]

For this reason, including aviation in the ETS should not add to the overall tax burden on flying. An allowance should be introduced against APD to cover 100% of the impact of the ETS. As ETS charges rise over the coming years, the allowance should be correspondingly increased.

3. Carry out a comprehensive analysis of the economic impact of APD and the ETS.

A recent study by PricewaterhouseCoopers found that abolishing APD could potentially pay for itself through boosting economic output, and create 60,000 jobs by 2020.[19]

The All Party Parliamentary Group for Aviation recently recommended that an official economic analysis be undertaken of the total impact of APD on growth and employment in the UK economy, and that analysis also be undertaken to establish fare price elasticities of leisure and business travel.[20] We support this recommendation.

Improving the visa and border regime

The benefits of more airport capacity, better integration with the wider transport network and reduced levels of taxation would be considerably reduced if the UK continues to make it difficult and time-consuming for people from outside the EU to come to this country. And even if no extra capacity was added, journeys to this country could still be made a lot smoother.

In 2011, there were 31 million visits to the UK from overseas residents (all purposes), and a total of £18 billion was spent. The majority, however, still came from traditional countries – £9.8 billion of spending from Europe, £2.9 billion from North America and £1 billion from Australia. Spending in the UK from visitors from the major high growth nations was very low – just £318 million from Indian visitors, £302 million from Brazilian visitors and £259 million from Chinese visitors (excluding Hong Kong).[21]

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[17] Department for Transport, *Aviation emissions cost assessment 2008,* Figure 1 (central case) http://webarchive.nationalarchives.gov.uk/20080808052912/http://www.dft.gov.uk/pgr/aviation/enviro nmentalissues/aviationemissionscostassess/aviationemissionscost.pdf
[18] Remarks of Tony Tyler at the UK Aviation Club in London, 25 April 2012 http://www.iata.org/pressroom/speeches/Pages/2012-04-25-01.aspx
[19] PricewaterhouseCoopers, *The economic impact of Air Passenger Duty,* February 2013 http://corporate.easyjet.com/~/media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-Abridged.pdf
[20] House of Commons All Party Parliamentary Group for Aviation, *Inquiry into Aviation Policy and Air Passenger Duty,* August 2012, p.21
[21] Office for National Statistics, *Travel Trends 2011,* Table 4.04 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-269632

Figures from the UN World Tourism Organisation, which have the advantage of being compiled on the same basis, show that in 2010, France received 907,000 Chinese visitors, Germany 511,000 and the UK just 109,000.[22]

We have two main recommendations in this area.

1. Employ more permanent border staff

Following a disastrous performance in the Spring and early Summer of 2012, UK Border Force performance at Heathrow improved for the Olympics. In August 2012, 100% of EEA passengers waited for less than 25 minutes and virtually 100% of non-EEA passengers waited for less than 45 minutes. The efforts made by the Border Force during the Olympics should be commended.

These targets were achieved because hundreds of extra staff were drafted in for the Games, offsetting a fall in Border Force staff at Heathrow of 10%, and nationwide of 6%, between March 2011 and March 2012.[23] Encouragingly, these high standards have been maintained since the Games. Other things equal, more border staff will mean shorter queuing times.

2. Improve the visa application process

A robust system for ensuring that people are properly checked before being permitted to travel to the UK is needed, and we are not suggesting that this be done away with. Given that, unlike most other countries, people are not counted when they leave the UK, it is especially important to carry out screenings to ensure that those arriving are not likely to overstay.

But there are improvements that can be made:

- First, the UK Border Agency has a target to process 90 per cent of non-settlement applications within 3 weeks, 98 per cent within 6 weeks and 100 per cent within 12 weeks of the application date.[24] This is really not good enough. It takes a week to get a Russian visa and less than a week to get a Chinese one. As long as the appropriate documentation is provided, there is no reason why the majority of applications for UK visitor visas cannot be processed as quickly. Visa approvals need to be speeded up.

- Second, there should be better integration with the Schengen visa application process. It should be possible to apply for a Schengen visa and a UK visa at the same time, with a single form containing questions common to both systems followed by Schengen-specific and UK-specific questions, together with payment of the two fees. This would help to ensure that fewer tourists visiting Schengen countries are deterred from visiting the UK on the same trip.

None of this means that the UK should cease to carry out robust checks, but the default attitude to those applying for visitor visas ought to be one of welcome rather than suspicion. Many parts of the world are growing far more quickly than the UK, and the UK economy needs more businesspeople and tourists from these countries to visit.

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[22] UN World Tourism Organisation, http://www2.unwto.org/, cited in the Guardian, 17 August 2012 http://www.guardian.co.uk/world/2012/aug/17/visas-deter-chinese-tourists

[23] House of Commons Home Affairs Select Committee, *Sixth Report – The work of the Border Force,* July 2012 http://www.publications.parliament.uk/pa/cm201213/cmselect/cmhaff/523/52302.htm

[24] See http://www.ukba.homeoffice.gov.uk/visas-immigration/general-info/processing-times/

Thank you for considering this response. Should you wish to discuss any of the points raised in more detail, please do not hesitate to contact me. We wish you well with your work.

Yours faithfully,

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