IoD response to the Transport Select Committee's inquiry into the Government's aviation strategy

26 October 2012

Dear Sir/Madam,

The Institute of Directors is grateful for the opportunity to respond to the Transport Select Committee's inquiry into the Government's aviation strategy. This is an issue of great interest to our members and to UK business more generally. We hope you find our comments useful.

About the IoD

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 40,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. 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, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

1. General comments

1.1 Aviation provides significant benefits to the economy, which have been well-rehearsed. As the pattern of UK trade continues to change, shifting away from heavy goods and towards high end manufacturing and services, flying will become increasingly important. At the same time, the emerging markets will account for an increasing share of world GDP, and providing direct connections to these markets will be increasingly important for UK businesses.

1.2 Aviation has negative impacts on the environment, specifically, CO_2, noise, and local air pollution. It is possible to manage the impacts of all three, ensuring that aviation continues to grow in a sustainable way. In the absence of a global agreement, the decision to apply the EU ETS to airlines was a mistake, but it does allow aviation to grow while ensuring that the overall carbon reduction targets are met.

1.3 The UK faces four related crunches: Hub capacity now; overall capacity around London by 2030; tax; visas and borders. Each of these makes it a little harder to get to and from the UK, making this country less attractive as a destination to visit for business or leisure.

1.4 In May 2012, the IoD surveyed 1,076 IoD members, and a number of interesting conclusions can be drawn.

- First, most IoD members travel to their nearest airport by car or taxi;
- Second, Heathrow is an important airport for all regions;
- Third, for indirect flights to European destinations, IoD members are now as likely to fly via Amsterdam as Heathrow, and for some regions, considerably more likely;
- Fourth, one third of IoD members say that that direct flights to emerging markets are currently important to their business, but a decade from now, two thirds say that direct flights to emerging markets will be important to their business;

- Fifth, 59% believe that a lack of spare capacity at Heathrow has a damaging effect on inward investment to the UK;
- Sixth, nearly 8 in 10 support new runway construction;
- Seventh, when asked to choose just one option to increase capacity, a third runway at Heathrow is the most popular;
- Eighth, if a new hub airport in the Thames estuary required the closure of Heathrow to be viable, IoD members would oppose it.

1.5 Three points should be emphasised when setting out a good long-term plan for the aviation sector:
- We have been here before – almost every option has been proposed before, while nine years after the publication of the 2003 White Paper, we are effectively back to square one;
- The main blockage is planning not money;
- A single airport capacity solution is not likely to be sufficient to meet forecast capacity and hub capacity shortfalls.

1.6 The IoD believes that an aviation plan needs to be holistic in nature, and should address six key areas:
- Making the best use of existing capacity in the short term;
- Making decisions about where new runways should be built as soon as possible, so they can open in the medium term;
- Ensuring good surface access and integration with the wider transport network, in particular planning rail services together with airport capacity, not separately;
- Dealing with noise and other local environment impacts;
- Not raising taxes any further;
- Improving the visa regime and operations at the UK border.

1.7 The IoD's main proposals in each of these six areas include:
- First, continuing with operational freedoms at Heathrow (but not mixed mode); reducing the level of regulation of Gatwick and Stansted; opening up the Channel Tunnel to passenger rail competition; promoting the benefits of airports outside of the South East; and introducing code-sharing between rail and air on the West Coast Main Line, primarily to encourage greater use of Birmingham Airport;
- Second, expanding Heathrow airport by one or two runways and allowing Gatwick airport to construct a second runway after 2019;
- Third, given the recommendation above, constructing the Heathrow Hub and running HS2 directly through it; and ensuring that code-sharing is implemented for rail services on both HS2 and the Great Western Main Line to reduce the number of domestic flights and car journeys to Heathrow;
- Fourth, any expanding airport should be subject to the strictest environmental standards, including banning the noisiest planes from the airport; restricting or banning flights between 23:00 and 06:00; increasing angles of descent for narrow-bodied aircraft; requiring aircraft to be towed to and from the runways and electric airport vehicles to be used; and ensuring that an appropriate strategy is put in place to reduce air pollution and CO_2 from road access to the airport;
- Fifth, freezing Air Passenger Duty in cash terms and introducing an offset for the impact of the EU ETS;
- Sixth, employing more permanent border staff; modernising Border Force working practices; accelerating development of advance-clearance systems; overhauling the visa application process, including allowing single applications for both Schengen and UK visas; and removing international students from the net migration target during the period of their study.

1.8 Since demand forecasts are liable to be quite wide of the mark, the UK must end up with an airports system that allows for a flexible response to changing economic circumstances, travel patterns and technology. Investing large sums of government money into a new hub airport is far more risky than allowing existing airports to make their own investments in increased capacity. The London airports system is far more competitive than it was when the 2003 White Paper was published, which can only be a positive development.

1.9 The IoD will be publishing a longer report examining these issues, but it is not yet sufficiently complete to be submitted to this inquiry as supplementary evidence. We would be happy to submit it once it is complete.

2. Responses to specific questions

1. What should be the objectives of Government policy on aviation?

2.1 The IoD believes that aviation policy should have four objectives:
- The UK should have sufficient hub capacity to provide world-class connections around the globe for all parts of the country;
- The aviation industry should grow in an environmentally sustainable way;
- Airports should connect seamlessly with the wider transport network;
- Flying to and from the UK should be a smooth experience.

b. What are the benefits of aviation to the UK economy?

2.2 A number of studies have examined the benefits of aviation to the UK economy. The key conclusions include the following.

2.3 Aviation contributes £50 billion to UK GDP, including £21 billion from the sector directly, £16 billion from the supply chain and £12 billion from the spending by the employees of the industry and its supply chain. In addition, there are an estimated £21 billion in "catalytic" benefits from tourism.[1]

2.4 The aviation sector supports 921,000 jobs, including 326,000 jobs directly supported by the sector, 346,000 supported through the supply chain and 249,000 jobs supported by the spending by the employees of the aviation sector and its supply chain. In addition there are a further 519,000 people employed through the catalytic (tourism) effects of aviation.[2]

2.5 The aviation sector contributes nearly £8 billion in tax, including around £6 billion from aviation firms and employees and £1.9 billion from Air Passenger Duty. In addition, a further £5.9 billion is raised via the aviation sector's supply chain and £4.3 billion through taxation of the activities supported by the spending of employees of both the aviation sector and its supply chain.[3]

2.6 Air transport supports trade, with 35 million business passengers passing through UK airports every year and 30% of all UK exports by value transported by air. The aviation industry handles 55% of the UK's exports, by value, of manufactured goods

[1] Oxford Economics, *Economic Benefits from Air Transport in the UK,* 2011
[2] Ibid.
[3] Ibid.

to countries outside the EU.[4] According to the 2006 Eddington Transport Study, "each day there are 72,000 international air business passenger journeys made to and from the UK (compared to 60,000 long-distance domestic business trips)".[5]

c. What is the impact of Air Passenger Duty on the aviation industry?

2.7 The UK's taxes on flying are the highest in the world. APD is now levied at a much higher rate than the environmental costs of flying would suggest. It is, of course, now principally a revenue-raising measure.

2.8 Excessive levels of APD are undoubtedly having a negative impact on the aviation sector. An "exorbitant" level of tax was one of the main reasons cited by the CEO of Air Asia X, Azran Osman-Rani, for pulling out of the UK earlier this year: *"The implementation of the Emissions Trading Scheme and the escalating air passenger duty taxes in the UK, which will rise yet again in April 2012, have forced our decision to withdraw our services to Europe."*[6]

2.9 The Netherlands' short-lived experiment with APD was particularly revealing. The tax generated €300 million but was estimated to have caused a loss of €1.3 billion to the broader Dutch economy.[7]

2.10 High APD rates are also damaging regional airports. For example, passengers flying out of Newcastle this year are expected to pay a total of £49 million in APD, almost as much as the airport's turnover last year of £52 million.[8] Continental Airlines (now part of United) would have abandoned flights from Belfast to the US if the level of APD had not been reduced in Northern Ireland.[9]

2.11 APD is also encouraging passengers to alter behaviour. Nearly a million people depart from Dublin airport despite being resident in Northern Ireland, with APD a major factor. And according to evidence presented to the All Party Parliamentary Group for Aviation, passengers are increasingly flying long-haul via Amsterdam, using two separate tickets, to avoid long-haul APD.[10]

d. How should improving the passenger experience be reflected in the Government's aviation strategy?

2.12 Improving the passenger experience is important. The benefits of more capacity would be substantially reduced if it takes visitors two hours to pass through passport control and three months to get a visa in the first place.

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[4] Oxford Economic Forecasting, *The Economic Contribution of the Aviation Industry in the UK,* October 2006

[5] Office for National Statistics, *Transport Statistics Great Britain*, 2005, cited in *The Eddington Transport Study,* December 2006, p.25

[6] Air Transport World, 13 January 2012 http://atwonline.com/international-aviation-regulation/news/airasia-x-stops-europe-flights-over-taxes-eurozone-woes-0112

[7] House of Commons All Party Parliamentary Group for Aviation, *Inquiry into Aviation Policy and Air Passenger Duty,* August 2012, pp.12-13

[8] Financial Times, 15 July 2012 http://www.ft.com/cms/s/0/579aff2c-c78c-11e1-a850-00144feab49a.html#axzz20mFHlkPg

[9] House of Commons All Party Parliamentary Group for Aviation, *Inquiry into Aviation Policy and Air Passenger Duty,* August 2012, pp.12 and 15

[10] House of Commons All Party Parliamentary Group for Aviation, *Inquiry into Aviation Policy and Air Passenger Duty,* August 2012, p.13

2.13 Improving the passenger experience should involve several actions on the part of Government, in addition to the actions of the private sector airports and airlines:

- Ensuring that there are good connections to and from the rest of the world for all parts of the UK, primarily by ensuring that there is sufficient hub capacity;
- Ensuring that surface access is swift and efficient, and that ticketing is flexible and encourages multi-mode journeys;
- Ensuring that the process of applying for a visa to visit the UK is swift and efficient, particularly for repeat visits;
- Ensuring that entry into the UK is reasonably swift.

e. Where does aviation fit in the overall transport strategy?

2.14 Aviation is a vital part of the UK's overall transport strategy. Given that the UK is an island nation, and given the UK's dependence on international trade, air transport is particularly important to the success of the economy. A growing and sustainable aviation sector, and one which connects well with the rest of the transport network, are two key elements of an overall transport strategy.

2. How should we make the best use of existing aviation capacity?

a. How do we make the best use of existing London airport capacity? Are the Government's current measures sufficient? What more could be done to improve passenger experience and airport resilience?

2.15 It is difficult to see any measures that will transform existing usage patterns in London. The best that can be hoped for are incremental improvements, which is why a decision on new capacity needs to be made as soon as possible. Nevertheless, there are several measures that can be taken.

2.16 First, operational freedoms should be extended at Heathrow, although we are persuaded that mixed-mode should not be introduced. Operational freedoms are delivering positive results.

2.17 Second, competition is key. Gatwick airport has improved substantially since it was taken over by new owners, and Stansted now has similar potential. Competition is probably the most effective way of spreading demand around the London airports. Ensuring that Gatwick and Stansted, now that they are no longer part of a monopoly airports system, have a light-touch regulatory regime is crucial to giving them the freedom to innovate, grow traffic and introduce new routes.

2.18 Third, opening up Channel Tunnel passenger services to competition should be a priority, but progress in introducing Deutsche Bahn services has been frustratingly slow. The Eurostar monopoly has also meant that prices can sometimes be astronomical – far more than flying, even including travel to the airport. But even so, rail now accounts for high proportions of the London-Paris and London-Brussels market, which illustrates the potential for competition to drive further traffic to rail.

2.19 There is now an excellent high speed rail network to destinations in France, Belgium, the Netherlands and parts of Germany, and both the Channel Tunnel and HS1 have plenty of spare capacity. Running direct trains from London to Amsterdam and Frankfurt has the potential to replace a significant proportion of point-to-point journeys between these destinations and London, helping to relieve some of the pressure on Heathrow.

2.20 Fourth, investing in radically improved rail services to Stansted would help to increase the airport's attractiveness, although this would entail significant expense. Further work would be needed on the possible options, which include extending Crossrail to the airport.

b. Does the Government's current strategy make the best use of existing capacity at airports outside the south east? How could this be improved?

2.21 Airports outside of the South East generally have considerable spare capacity. The case for improving surface access to each one should be evaluated on its own merits. The capacity shortfall, however, is in the South East, so any regional airport strategy should examine how to encourage South East travellers to fly from Birmingham, and how to encourage more people in the South West, for example, to fly from Bristol.

2.22 Government, however, cannot mandate where airlines choose to locate, or where passengers choose to fly from. The most that can be done is to encourage changing travel patterns. The IoD would suggest two measures.

2.23 First, a campaign to promote the benefits of airports outside the South East, not least in terms of lack of congestion, should be undertaken. British embassies and trade missions abroad should promote non-South East airports as possible point-to-point locations for new routes.

2.24 Second, Birmingham airport is the only non-South East airport that is easily accessible from London. With a runway extension set to open in 2014, the airport could start to operate long-haul routes. Code-sharing for rail services on the West Coast Main Line to Birmingham airport would increase the attractiveness of using the airport. It currently takes 1h 10m from Euston to Birmingham airport, with very cheap advance fares on offer at off-peak times. However, fares are extremely expensive at peak times, and if flight arrivals are delayed, then an advance ticket is no longer valid. Code-sharing between the new operator of the West Coast Main Line and key airlines at Birmingham would offer better prices than at peak times and the flexibility to take the first available train from the airport after landing. With rail services to London every 20 minutes during the day, and the possibility of reducing journey times to Euston from 1h 10m to about an hour on the existing line, such a proposition could make air passengers think beyond the London airports.

c. How can surface access to airports be improved?

2.25 There are a number of infrastructure enhancements that can be made, including more capacity (in addition to the Thameslink upgrade) to the Victoria-Brighton line to assist Gatwick Airport, and a fast rail link to Stansted.

2.26 The most significant improvement, however, would be to transform Heathrow's rail connectivity, and to think about the growth of the UK's only hub airport and the construction of the UK's most ambitious rail project since the Victorian era together, not separately.

2.27 Rail already provides a good substitute for flying between major cities in the UK. City-centre to city-centre, major rail routes are already quicker than flying, although they may be more expensive at peak hours. But Heathrow is incredibly badly connected to the national rail network, with rail passengers from the North and the West having to travel into London and then out to Heathrow. With the exception of driving for shorter journeys, flying to Heathrow and then changing planes is generally quicker and more convenient.

2.28 Currently, there are a number of disparate schemes to improve rail access to Heathrow, including a link from the airport to the Great Western rail line running west, and an eventual spur line from HS2 during the second phase. These are welcome, but a fully integrated plan would deliver more benefits at potentially lower cost.

2.29 The IoD believes that the Heathrow Hub is an excellent plan.[11] 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:

2.30 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.

2.31 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. It is worth emphasising the importance of running rail services direct to the airport. It would make travelling from, say, Manchester to a long haul destination far easier, and quicker, than flying from Manchester and transferring at Heathrow. Changing at Old Oak Common, by comparison, would be much less convenient.

2.32 Other airports, such as Amsterdam, Paris and Frankfurt, have high speed lines running directly through the airport, not on branch lines. A direct line allows a high frequency of service to and from the airport, and combines city centre with airport traffic. It is far superior to putting Heathrow at the end of a branch line, which would greatly reduce the frequency of service.

2.33 The Heathrow Hub terminal makes it easier to demolish Terminal 4 and provide a more coherent airport, with the Piccadilly Line running to Terminals 2 and 3 and Terminal 5, without the need for a Terminal 4 branch.

2.34 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.

2.35 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 press ahead with the Western rail link. Other important developments that should also be pursued are a connection to Heathrow from the South, probably via Staines, and an upgrade to the Piccadilly Line, which will reduce journey times to central London by a fifth.[12] Extending Crossrail to Reading would also seem sensible.[13]

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[11] For more details, see http://www.heathrowhub.com/

[12] See http://www.tfl.gov.uk/corporate/projectsandschemes/18098.aspx

[13] Network Rail's Route Utilisation Strategy for London and the South East, published in 2011, recommended a detailed examination of extending Crossrail to Reading. Direct Crossrail trains from

2.36 Taken together, these improvements are not only necessary to reduce the number of domestic flights to Heathrow while retaining the airport's ability to draw in hub traffic, but are also essential to reducing the volume of road traffic to and from the airport. Further work would be needed to develop these options, but fundamentally, if Heathrow is to continue to be the UK's main hub airport, then rail planning and airport capacity planning have to be conducted jointly, not separately.

2.37 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. 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.

2.38 Making the journey to the airport as seamless as possible and ensuring that different transport modes connect well not only physically, but also on the ticketing side, will be key to encouraging passengers to take the train rather than the car or the connecting domestic flight.

3. What constraints are there on increasing UK aviation capacity?

2.39 The key constraint is the planning system, and the inability of national government to make a decision on where new capacity should be located. No local councils in the South East want new runways at present, so the national government has to decide. Only then will private investment follow.

a. Are the Government's proposals to manage the impact of aviation on the local environment sufficient, particularly in terms of reducing the impact of noise on local residents?

2.40 Aircraft and car engines are becoming quieter and cleaner all the time, and noise contours have been steadily diminishing, even as traffic has increased. For people living under existing flight paths, the impact of noise and local air pollution should diminish steadily over time. But new runways will inevitably expose more people to noise. The IoD believes that any airport constructing new runways should be subject to the strictest environmental standards, reducing the negative impact on newly affected communities and improving the position of existing communities. The proposals below would affect airports building new runways only, and would apply immediately upon the opening of the new runway.

2.41 First, no planes above a certain noise threshold should be permitted, except in an emergency. The noise limits should be agreed as part of the planning process and therefore announced before the construction of any new runways, giving airlines a number of years to adjust. They should also fall further over time. It is outside the IoD's competence to determine exactly what the noise levels should be, although we are persuaded by the conclusions of a recent Policy Exchange and Centre Forum report. The report stated that all planes arriving at their suggested four-runway Heathrow would have to be QC 0.5 or lower on arrival, while narrow bodied departures would be QC 1 or lower and wide bodied departures QC 2 or lower. This would allow a large range of existing long-haul and short-haul aircraft to operate,

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Reading would then pass through Heathrow on their way to London. See Network Rail, *London and South East Route Utilisation Strategy,* July 2011, Table 8.1

although would mean that a number of airlines, not least British Airways, would have to upgrade their fleets.[14] Further work would be needed, but this may be a sensible noise limit for any airport building new runways.

2.42 Second, the angle of descent should be increased so that planes are higher above people's homes when they land. This can also dramatically reduce noise levels. Planes currently descend to land at Heathrow at an angle of 3 degrees, compared to 5.5 degrees at London City. Although the steeper angle of descent is necessary at London City because of the M25 bridge at Dartford, rather than as a noise mitigation measure, it illustrates that steeper landings for smaller planes are perfectly possible. Although it is unlikely that wide-bodied planes could land at 5.5 degrees, it may be possible to raise their angle of descent above 3 degrees by the time new runways open. Again, further work would be needed to determine the precise angles that would be safe.

2.43 Third, there should be severe restrictions on flights between 23:00 and 06:00. The best option may be to ban scheduled flights between those hours, but allow for a very limited number of flights per month to retain resilience. This regime would not be appropriate at all airports, especially the express freight gateways – in particular, East Midlands, Stansted and Edinburgh – which depend on night flights.

2.44 Fourth, best-practice ground procedures should be mandatory, including towing aircraft to and from the runways and using electric airport vehicles. This will reduce CO_2 and air pollution from airport ground activities.

2.45 Fifth, any expanding airport, especially Heathrow, should be required to produce a strategy to reduce emissions of CO_2 and air pollution from road access to the airport, with measurable goals. Such a strategy should both inform, and be informed by, improvements to public transport services to the airport.

b. Will the Government's proposals help reduce carbon emissions and manage the impact of aviation on climate change? How can aviation be made more sustainable?

2.46 Including emissions from international aviation in the EU ETS was a development that the IoD opposed. In the absence of a global agreement, it could easily lead to an aviation trade war. At the time of writing, indications are that the Chinese and American governments will refuse to allow their airlines to pay the charge.

2.47 Having said that, the EU ETS offers another way for the aviation industry to expand. The logic of the ETS is that carbon emissions are lowered in the most cost-effective way. Carbon emissions from aviation can be reduced, but if aviation isn't the most cost-effective area to cut emissions, then the industry can pay for reduction elsewhere. Given that CO_2 is subject to a shrinking cap overall, it doesn't matter where the emissions originate. It's the emissions cap that is important, not its composition.

2.48 Earlier this year, the Committee on Climate Change set out how aviation could grow sustainably. The report found that, with reasonable fuel efficiency improvements and a gradual uptake of sustainable biofuels, UK aviation demand can increase by 75%-

[14] Tim Leunig, *Bigger and quieter: The right answer for aviation,* Policy Exchange and Centre Forum, October 2012, pp. 43-45

125% on its 2010 amount, without CO_2 emissions increasing beyond their 2005 levels.[15]

4. Do we need a step-change in UK aviation capacity? Why?

2.49 The UK has two capacity crunches. The first crunch is capacity around London. According to the Department for Transport's forecasts of unconstrained demand, demand in the South East will outstrip the maximum capacity of the five London airports by 2030. Given the length of time before new runways can open, decisions on new capacity need to be made as quickly as possible, and planning approval granted swiftly, so that new runways can actually open before 2030.

2.50 By contrast, according to the same DfT forecasts, no airport outside of London will need a new runway before 2040.[16] Even if a portion of South East demand can be shifted to airports outside of the South East, new runways will be needed unless demand is to be constrained.

2.51 The second crunch is hub capacity. Heathrow is by far the UK's largest airport and its only hub airport:[17]

- In 2011 Heathrow handled 69 million passengers, 32% of all UK passenger traffic and more than twice as many passengers as the next largest airport, Gatwick;
- Heathrow handled more passengers than the other four London airports combined;
- Heathrow handled more passengers than the nine largest airports outside of London combined (Manchester, Edinburgh, Birmingham, Glasgow, Bristol, Liverpool, Newcastle, East Midlands, Belfast International);
- In 2011, Heathrow handled 1.5 million tonnes of freight, 65% of the total for UK airports. No other UK airport handled more than 300,000 tonnes of freight;
- In 2010, 36% of Heathrow's passengers were transferring onto other flights. Of these, 88% were transferring onto international flights;
- No other UK airport comes close to this proportion of transfer passengers. At Gatwick, the airport with the second highest proportion of transfer passengers, only 8% were connecting in 2010.

2.52 The UK's largest airport, and only hub airport, is already virtually full. Heathrow's terminals may be able to accommodate more passengers, but the airport has a regulated limit of 480,000 Air Traffic Movements (ATMs) a year, and in 2011, ATMs reached 476,000.[18] Under existing arrangements, Heathrow has no more room. No forecasts are necessary – the numbers speak for themselves.

2.53 According to the Department for Transport's central forecasts of unconstrained demand:[19]

- London and the South East, overall, will have a capacity shortfall of 16 million passengers per annum in 2030, rising to 57 million in 2040 and 106 million in 2050.

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[15] Committee on Climate Change, *The 2050 target – achieving an 80% reduction including emissions from international aviation and shipping,* April 2012, p.21
[16] Department for Transport, *UK Aviation Forecasts,* August 2011, unconstrained terminal passenger forecasts by airport (central forecast)
[17] Civil Aviation Authority, *UK Airport Statistics 2011,* Tables 10.3 and 13.2
[18] Civil Aviation Authority, *UK Airport Statistics 2011,* Table 06
[19] Department for Transport, *UK Aviation Forecasts,* August 2011, unconstrained terminal passenger forecasts by airport (central scenario). It's worth noting that larger planes on average will increase the number of passengers carried on the same number of ATMs, but the capacity shortfalls will still be large.

– Hub capacity will be constrained more quickly, given that Heathrow is currently the UK's only hub airport – Heathrow will have a capacity shortfall of 9 million passengers per annum in 2020, 29 million in 2030 and 54 million in 2040.

2.54 Hub capacity matters. The key reason for this is that a range of routes and a high frequency of services are only made viable by the transfer passengers connecting through a hub airport. And global businesses will want to locate in cities that are well connected, both in range of destinations and frequency of flights, even if they have to pay a premium in office rent and salaries to do so.

2.55 The important of transfer passengers to sustaining routes at Heathrow is illustrated by the fact that in 2010 there were 39 routes at Heathrow on which more than 50% of passengers were transferring, and a further 92 routes on which more than 25% of passengers were transferring.[20] These routes are important not just for London's connectivity, but for UK regions as well.

2.56 Heathrow's lack of spare capacity constrains the development of new routes. Established markets are well served, but other European hubs serve the high growth markets such as China and Brazil far better. And these countries will be increasingly important over the coming years, as they continue to urbanise and develop.

2.57 Over the next 40 years, urban areas are set to grow by more than 2.5 billion people, a 75% increase. In China and India alone, cities are expected to grow by 800 million people by 2050.[21] By 2050, Goldman Sachs estimates that the BRIC countries will account for nearly 40% of world GDP and emerging markets overall over 70%.

a. What should this step-change be? Should there be a new hub airport? Where?

2.58 There are a number of solutions that have been proposed, some of which were proposed previously and rejected by the 2003 White Paper. There are several which would be less likely to work.

2.59 First, a new hub airport in the Thames estuary would be sufficient to meet capacity needs, even if Heathrow were to close, but it is not a viable option for several reasons. First, it would be the wrong side of London, especially for people living outside of the capital. For most people, journey times to the airport would be lengthened considerably relative to Heathrow. Second, the closure of Heathrow would be the only way to ensure that the airport was sufficiently used, and indeed the only way to finance it. Closing Heathrow would devastate the local economy, and hit the numerous businesses that are located nearby. Third, there are serious environmental objections.

2.60 Second, "Heathwick" should be dismissed. Such a long transfer between airports would make the hub experience appalling, and connecting one airport that is full to another that is likely to be full once the new rail link opened would not provide any new capacity.

2.61 Third, making full use of Birmingham airport's capacity would not increase hub capacity at all. Greater use of Birmingham should be seen as an interim measure, before new runways open.

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[20] Institute of Directors, *Big Picture,* Q3 2011, p.10

[21] United Nations, Department of Economic and Social Affairs, *World Urbanisation Prospects, the 2011 Revision*

2.62 Fourth, Stansted could be developed, either with a new runway, or with three new runways. It would be possible to improve rail services to London substantially, perhaps by extending Crossrail, although this would come at a cost.[22] But Stansted has no hinterland outside of London and is badly connected to other parts of the UK. It has not been a location of choice for full-service airlines, and is dominated by Ryanair. New owners will undoubtedly improve the airport's attractiveness, and traffic is likely to grow. But the airport has around 50% spare capacity, and serious inroads into that would need to be made before new runways should be contemplated. Nevertheless, it would be the best location for a new hub airport, should it prove impossible to expand Heathrow.

2.63 There are several options that do, however, look promising. First, Gatwick airport has improved remarkably since it was acquired by new owners, and will continue to grow its traffic. It is likely to need a second runway by 2030, which would allow for the continued growth of existing routes and the development of new routes. Combined with improved rail access to London, a larger Gatwick would be an attractive proposition. With the exception of capacity improvements on the rail link, public investment would not need to be forthcoming, and so there would be little risk to the taxpayer if the new runway was not to prove successful. It may be possible for Gatwick to compete with Heathrow as a hub (as is the case with JFK and Newark in New York), but this is far from certain. A second runway would, however, give the airport the chance to try. Expanding Gatwick further would not be advisable, not least due to the nature of the terrain.

2.64 Second, Heathrow airport remains the location of choice for passengers and airlines, particularly given that so many still travel to the airport by car or taxi. Attempts to force traffic away from Heathrow have failed every time. The airport is well located for surface access, and with a re-routing of HS2 and construction of a Heathrow Hub, its rail connectivity could be transformed, providing for many cities a genuine alternative to flying on the first/last stage of indirect journeys from/to the UK. The fact that existing infrastructure is in place does not mean that expanding Heathrow is a "make do and mend" solution – the opposite, in fact, is true.

2.65 A third runway at Heathrow would improve the airport's connectivity, but a fourth runway would be needed for the longer term in order to meet the forecast hub capacity shortfalls. It may be possible for Gatwick to compete as a hub airport with Heathrow, but it would be more sensible to see additional capacity at Gatwick as complementing, rather than competing with, Heathrow.

2.66 It is outside the IoD's competence to determine which solutions would be best at Heathrow. We note four possibilities, in isolation or in possible combination:

- A short third runway to the North, at Sipson;
- A close-parallel runway to the South of the existing Southern runway, which could be contained almost entirely within the existing airport boundary, together with the demolition of Terminal 4 and it's relocation to the central area;[23]
- Reconfiguration of the runway at RAF Northolt to serve as a third (or a fourth) runway, with a fast rail link between the terminals;[24]
- The construction of two pairs of close parallel runways immediately to the West of the existing site, with Terminals 2, 3 and 5 retained and a new Heathrow West terminal.[25]

[22] The proposal for a four-runway Stansted and an extension of Crossrail to the airport was made by the London Stansted Airport Delivery Company
[23] This proposal was made by Aras Global Ltd
[24] This proposal was made by Rothwell Aviation Ltd

2.67 The biggest drawbacks to Heathrow's development are noise and air pollution. To address these issues, we would emphasise the measures outlined in paragraphs 2.40-2.45. These will be difficult issues to resolve, but not insurmountable.

2.68 The final point to make is that the best should not be the enemy of the good. Expanding Heathrow and Gatwick seem to be the most sensible solutions, but if expansion of Heathrow proved to be impossible, then other options should be considered seriously, in particular the development of Stansted.

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.

Yours faithfully,

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[25] This proposal was made by Tim Leunig, *Bigger and quieter: The right answer for aviation,* Policy Exchange and Centre Forum, October 2012