

# **UK Aviation Strategy**

## **Time to choose**

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**To maintain its long term global economic competitiveness the UK is likely to require a hub airport on a single site with more than three runways and rapid connections to Central London. This presents a binary choice, expand Heathrow or close the hub at Heathrow and develop a new facility elsewhere in South East England.**

## **Executive Summary**

### **The importance of aviation to the UK economy**

Aviation is a critical part of the UK's transport system. The UK's aviation sector currently carries over 235 million passengers and circa 40% (by value) of the UK's annual exports. The aviation sector itself accounts for 3.6% of GDP and underpins many other parts of the economy<sup>1</sup>.

While some airports do currently have significant spare capacity, taken as a whole, the network is suffering from severe capacity constraints, with the immediate pressure point being London and South East England. This situation is very likely to get worse. The Department for Transport's current, national central forecast predicts that by 2050, without new runways, the UK will have 50 million fewer passengers per annum than would otherwise have travelled<sup>2</sup>.

Whilst ICE and CIHT do not believe in a blanket "predict and provide" approach, if left unaddressed this situation will put the UK at a significant competitive disadvantage to competitors in France, the Netherlands, Germany and further afield that are making significant investments in their hub airports.

### **The UK hub and the Davies Commission**

In setting up the Davies Commission the Government is right to highlight the importance for the UK's future economic competitiveness and growth of maintaining the UK's position as Europe's leading aviation hub. In supporting a far wider route network than can be serviced by point-to-point services, a hub airport underpins the UK's international connectivity which in turn is vital for trade, tourism and inward investment.

A hub airport can also:

- Provide enhanced connectivity for other parts of the UK via connecting services to regional airports
- Support the operational competitiveness of UK airlines
- Attract the global or regional headquarters of large international companies to the UK

Heathrow, the UK's existing hub airport, is currently operating at very close to maximum capacity. The Commission must identify robust options for meeting the UK's needs which are likely to require an airport with more than three runways and with rapid access to Central London. In practice, in the long term we face a simple choice:

- to expand on the existing Heathrow site,
- Close the hub at Heathrow and develop elsewhere in the South East of England

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<sup>1</sup> Oxford Economics (2011) *Economic benefits of air transport in the UK*

<sup>2</sup> Department for Transport (2011) *UK aviation forecasts 2011*

Expansion at Heathrow is likely to be deliverable at an earlier date than other options. Given estimates of future growth, a third runway alone is however unlikely to be a viable long term solution. In addition noise and local air quality issues may act as a significant constraint to expanding capacity at Heathrow.

Nevertheless this decision does not remove the need for action over the next 5-10 years to resolve the existing constraints at Heathrow. This action will need to overlap with programmes of investment aimed at the longer term.

The Commission will need to evaluate all options against a range of criteria including cost, economic returns, CO<sub>2</sub> impacts, impact on local air quality, integration with other modes (including opportunities for exploiting existing infrastructure), noise, protected ecology and impact on patterns of employment, business activity and urbanisation.

All options will involve major engineering, operational and project management challenges, with some options likely to require significantly greater time and resources than others to achieve. ICE and CIHT stand ready to provide expert advice to the Commission on these deliverability issues.

### **Credibility – the need for cross party consensus and an Act of Parliament**

Expanding Heathrow physically or developing a new hub airport will require massive private sector investment. This will not be achieved if investors do not believe that the UK has an aviation strategy that can survive a change of government. We welcome recent indications by the Labour and Conservative parties that they are willing, in principle, to proceed on a cross party basis. To help ensure that any consensus is maintained, ICE and CIHT recommend that an Act of Parliament is passed to establish a Development Corporation or similar body, tasked with the development of a UK hub. Lessons should be drawn from the Olympic Delivery Authority in how to make such a body effective, whilst maintaining high levels of public accountability.

### **Regional Airports, Air Passenger Duty and connections to the UK hub**

Regional airports also play a crucial role both via direct point-to-point flights and through connecting flights to the UK hub.

ICE and CIHT believe that there is strong evidence that the UK's regional airports' ability to fulfil this role is currently being undermined by

- lack of access to landing slots at Heathrow
- the negative impact of a level of Air Passenger Duty (APD) that is significantly higher than the EU average

To address these challenges we recommend that Government:

- Introduces a Public Service Obligation (PSO) on Heathrow and any future UK hub, preserving landing slots to key UK regional airports where a High Speed Rail option is not available. This would need to be accompanied by appropriate compensation arrangements for hub operators
- Urgently reviews the impact of current levels of APD on the competitiveness of UK regional airports

## 1. The value of aviation to the UK

- 1.1 Aviation is a primary facilitator in creating jobs and driving growth contributing nearly £50bn in GDP, the equivalent to over £200 for every terminal passenger handled<sup>3</sup>. Connectivity is also essential for our exports, of which 40% go by air<sup>4</sup>. Direct airline connections increase the competitiveness of UK products and services to market.
- 1.2 Unfortunately the UK's position has been eroded over recent decades from being the "aircraft carrier of the world" with London as the aviation capital to a major concern both to the British transport sector, wider industry and society at large. While Heathrow remains Europe's biggest airport in terms of annual passenger numbers and weekly departures, it currently has direct services to 162 destinations, considerably fewer than its rivals in Amsterdam (247), Paris CDG (236) and Frankfurt (277)<sup>5</sup>.
- 1.3 This lack of connection to international destinations, in particular the faster growing developing economies is a concern for the competitiveness of the UK.

## 2. Overcoming inertia, the Davies Commission and cross party consensus

- 2.1 Over the last decade, aviation and in particular our national hub at Heathrow has been at the heart of political debate and electoral competition between parties. The overarching policy set down in the 2003 Air Transport White Paper and the previous administration's decision to proceed with a third runway at Heathrow have been discarded but not replaced. While this debate has continued, the strategic national asset of our hub airport has become so capacity constrained that it now lags behind many of our European competitors on key metrics including locations served.
- 2.2 ICE and CIHT therefore welcome the recent creation of an independent commission under Sir Howard Davies to examine future capacity needs and how they can be met. It is however very disappointing that the Commission will not make its final report until after the 2015 General Election. Continued delay and uncertainty is damaging to the UK's credibility as a location for private investment in aviation infrastructure and it is important that Sir Howard's interim report scheduled for 2013 indicates a clear direction of travel.
- 2.3 On receipt of the Commission's final report it is vital that government makes an unambiguous choice on the location of expanded hub capacity. We strongly believe that for this decision to be credible it must represent a cross-party consensus. ICE and CIHT stand ready to assist the Commission in establishing a long term framework that can attract the necessary support.
- 2.4 All options will involve major engineering, operational and project management challenges, with some options likely to require significantly greater time and resources than others to achieve. ICE and CIHT members have significant expertise and international experience of managing the delivery of airports and other complex mega-projects which we are keen to make available to the Commission.

<sup>3</sup> Oxford Economics (2011), *Economic Benefits of Air Transport in the UK*

<sup>4</sup> Department for Transport (2009), *The Air Freight End to End Journey*

<sup>5</sup> Airline Network news and analysis, 22 August 2012 <http://www.anna.aero/2012/08/22/london-heathrow-in-flap-still-busier-than-amsterdam-frankfurt-and-paris-cdg-but-far-destinations/#> accessed 22 October

- 2.5 We also believe that new delivery mechanisms will be needed to fully implement the recommendations. This is likely to require an Act of Parliament to create a special time limited delivery organisation, particularly if a new site is to be developed. This will be essential in order to achieve the time imperatives, to create the funding mechanisms and assemble and manage the resources needed for any deliverable solution. Lessons should be drawn from Olympic Delivery Authority on how to make such a body effective whilst maintaining high levels of transparency and accountability.
- 3. Recognising the different roles of the UK hub, other London airports and regional airports**
- 3.1 Other airports in London and the UK's regional airports provide a diverse range of short and medium haul connections. Policy makers should however recognise that they perform a different role and operate under different business models to a hub. In this context the lack of capacity at Heathrow or the foreseeable prospect of a new hub elsewhere is a serious constraint to the nation's medium and long haul connectivity. New runway capacity at non-hub airports will do little to resolve this issue. We also believe that on current evidence a "split-hub" operation embracing two or more of London's airports is unlikely to be viable due to uncompetitive connection times between the 2 airports.
- 3.2 As discussed elsewhere in this paper we believe that a hub airport is currently a strategic national asset, vital for the UK's competitiveness. In addition, in 2009 ICE published *Aviation 2040*<sup>6</sup> examining what infrastructure requirements might be required under four different sets of plausible future circumstances. Strikingly the need to maintain a UK hub was compatible with each scenario.
- 3.3 It should also be noted that an efficient hub airport also supports the operational competitiveness of UK based airlines and in turn creates greater value to the users. Hub airports are also attractive locations for global or regional headquarters of major international businesses.
- 3.4 Within a 'hub and spoke' model, future development of the hub is also important for maintaining connectivity of regions outside of South East England. The number of UK regional airports served by Heathrow has fallen from 18 in 1990 to 6 at present. Amsterdam Schipol however now has direct connections to 18 UK airports<sup>7</sup>. In the short term regional connectivity to other EU hubs may seem a convenient solution but over time these EU airports may well become more capacity constrained squeezing out smaller UK airports (and thus UK regions) from global networks. Evidence taken from ICE Regions in producing this document identified significant concerns in this area. We would therefore support the placing of a Public Service Obligation (PSO) on Heathrow and any future hub to preserve "feeder" slots from regional airports where a suitable High Speed Rail option is not available. We recognise that the operators of the UK hub would have to be compensated for the likely loss of income arising from this policy.
- 3.5 Point to point services from regional airports also make an important contribution to the relative global competitiveness of cities and regions. We are therefore concerned that UK airports, excluding Heathrow, have suffered a 3.3% annual decline in traffic from 2007 to 2011. Regional airports in France, and Germany have seen an increase of 0.9% and 2.0%

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<sup>6</sup> ICE (2009) *Aviation 2040 – Scenarios for Future Growth*

<sup>7</sup> All Party Parliamentary Group for Aviation (2012) *Inquiry into Aviation Policy and Air Passenger Duty*

respectively, whilst even harder hit economies, such as Spain and Greece have seen modest decreases of 0.8% and 1.2%<sup>8</sup>.

- 3.6 As a recent report from the All Party Parliamentary Group for Aviation has demonstrated the UK is also subject to a level of Air Passenger Duty that is 3-4 times that charged elsewhere in Europe<sup>9</sup>. We therefore believe that as a matter of urgency government should review the impact of current levels of APD on the competitiveness of UK regional airports.
- 3.7 We note that many ICE and CIHT members are actively involved in work overseas and provide very substantial invisible exports to the UK with large companies paying hundreds of thousands in additional tax. In 2010, the category “architecture, engineering and other technical services” made a positive contribution of £4.6bn to the UK Balance of Payments<sup>10</sup>. APD is a significant cost to these businesses as well as to those wishing to travel and do business in the UK.

#### **4. Future hub capacity**

- 4.1 At present South East England is the ultimate destination of circa 75% of customers exiting Heathrow by surface transport. This fact and the economic importance of London to the UK economy suggest that future hub capacity must directly service the capital.
- 4.2 As is well documented, Heathrow, the UK’s existing hub airport is currently operating at very close to maximum capacity. We believe that to maintain and enhance our relative competitiveness the UK is likely to require within the next 25 years a single site hub airport with more than three runways and with rapid access to Central London.
- 4.2 We believe that this presents a binary choice:
- Expand on the existing Heathrow site. If political support could be secured, new capacity in the form of a third runway is likely to be deliverable earlier than a new facility. A third runway alone is however unlikely to be a long term solution given estimates for future growth. Local air quality and noise issues may also act as a constraint to significant expansion.
  - Close the hub at Heathrow and develop elsewhere in the South East of England. A range of proposals including wholly new facilities in the Thames Estuary and expansions of existing London airports, most recently a four runway facility at Stansted are at various stages of development.
- 4.3 This choice does not however remove the need for action over the next 5-10 years to resolve the existing constraints at Heathrow, for example by introducing “mixed mode” operations. This would involve both existing runways being used simultaneously for take-off and landing rather than the current system of alternation. Any such initiative must overlap with programmes of investment aimed at the longer term.
- 4.4 The Davies Commission is an opportunity to conduct a thorough review of all options. Assessment criteria will need to include; net CO2 and other emissions (including from

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<sup>8</sup> Airport Operators Association, appearing in All Party Parliamentary Group for Aviation (2012) inquiry into Aviation Policy and Air Passenger Duty

<sup>9</sup> All Party Parliamentary Group for Aviation (2012) *ibid*

<sup>10</sup> Office for National Statistics (2011), United Kingdom Balance of Payments – The Pink Book

surface transport to and from the airport), integration with other modes (including opportunities for exploiting existing infrastructure), noise, protected ecology and impact on patterns of employment, business activity and urbanisation.

## 5. Climate Change and Local Air Quality

- 5.1 The air transport industry faces a very significant challenge in delivering growth while making its contribution to government efforts to reduce CO<sub>2</sub> emissions. At a global level it is uncertain if we will see a reduction in gross CO<sub>2</sub> emissions from air transport for decades. In 2008 the EU passed legislation to include aviation in the EU-Emissions Trading Scheme. This means that from 2012, airlines will have to compensate for growth either through fleet modernisation or by purchasing emissions credits that are likely to come from other sectors of the economy.
- 5.2 In addition there are local emissions and air quality impacts associated with individual airports which are clearly of significant concern to local populations. Monitoring for the Department for Transport<sup>11</sup> indicated air quality in the vicinity of Heathrow airport is already out of compliance with some EU limit values and that because of the location of the proposed third runway in relation to other sources of pollution, including roads, this situation would become worse<sup>12</sup>. Developers would therefore need to demonstrate how this impact would be mitigated before any runway scheme was able to proceed.

## 6. Aircraft Noise

- 6.1 Noise disturbance was cited as the single greatest concern of respondents to the Department for Transport's 2011 scoping document on aviation policy. DfT's subsequent July 2012 consultation on a *Draft Aviation Policy Framework* restated government's policy objective as "to aim to limit and where possible reduce the number of people in the UK significantly affected by aircraft noise". This document also restated that government opposition to further expansion at Heathrow, "continues to be, determined in large part by a concern about the scale of the noise impacts at the airport", noting that on some measures more people are exposed to high levels of noise in the vicinity of Heathrow than at all other major Western European hubs combined.
- 6.2 As with Air Quality, proposals for further development at Heathrow will need to demonstrate that these effects can be managed whilst still delivering the economic benefits of enhanced capacity.
- 6.3 Experience suggests that airports not only need to minimise exposure to noise but should do so in consultation with local residents to secure buy-in to the process and ensure that any remedial action or commitments actually addresses local concerns.

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<sup>11</sup> DfT (2008) *Project Sustainable Development Heathrow* (Chapter 2)

<sup>12</sup> DfT (2008) *Project Sustainable Development Heathrow* (Chapter 4)

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