

Speech by Sir Howard Davies
Aviation Capacity in the UK: Emerging Thinking

Response by Richmond Heathrow Campaign
October 2013

This is the response of the Richmond Heathrow Campaign (RHC) to the speech by Sir Howard Davies, Chair of the Airports Commission (the Commission), on “Aviation Capacity in the UK: Emerging Thinking” that he delivered at The Exchange, 28 London Bridge, London on 7 October 2013.

We note that of the fifty eight long term proposals that the Commission has received, ours is the only one that argues that no additional runway capacity is needed in the South East of England. That our views are so isolated is perhaps not surprising, given first that the invitation to submit proposals had a bias towards development options, and second that the majority of proposals are from organisations with a direct interest in development per se at their preferred location without regard to the strategic case for the UK and the South East as a whole. We are therefore greatly concerned that the Commission and the advocates of expansion may between them seek to close down any further debate about whether runway expansion in the South East is really necessary. In our view, Ministers should be advised on the options in the event that no additional runway development were to be authorised in the medium or longer term.

We set out below in the context of the speech a summary and under their various headings a number of comments in support of the short/medium and long term proposals on airport capacity in South East England that we have already submitted to the Commission.

Summary Assessment of the Options

We share the Commission’s aim of providing for passenger growth and connectivity sought by the markets. But we believe the substantial evidence and appraisal we have submitted to the Commission demonstrates that this aim can be fully achieved by better use of existing capacity rather than by adding runways which are unnecessary and challenge the local environment and global climate. Our proposals for increased aircraft loads and thereby passenger capacity per existing runway, better use of existing regional runway spare capacity, and replacement of international transfer demand with local demand are the equivalent in aggregate of two additional runways in the South East of England. The proposal on transfers also supports competition between southeast airports instead of ever increasing concentration of demand at a single hub airport. The proposals have immediate effect and adjust over time to passenger demand and connectivity by freeing up capacity as the markets require over the longer term at least until 2050.

Our proposals are concerned that market forces that drive change are reflected in the forecasts, and the evidence we have presented suggests this is not the case and is leading to sub-optimal provision of new capacity. In addition, our proposals suggest intervention is needed in the markets to reduce the inefficient and anti-competitive under-utilisation of capacity.

By comparison, the proposals submitted to the Commission for new runways have had to assume unrealistically low aircraft loads, which in some cases are frozen over time, in order to justify additional capacity given insufficient forecast passenger demand. Moreover, the sponsors have sought state subsidy through funding and guarantees to underpin the project risk in respect of demand, which suggests a lack of confidence in there being sufficient demand to support additional runways. Still further they have had to fudge the climate change limits so as to permit additional capacity, as explained later. Before shortlisting the runway proposals, hopefully the Commission will critically examine the weak case on demand rate of growth and risk made by sponsors in support of additional capacity.

Short and medium term - better use of Heathrow

Reports on the Freedom Trials at Heathrow have just been published by Heathrow and the CAA. The statistical evidence shows no net operational benefit overall or from any one of the individual freedoms but yet an adverse reduction in noise respite. We believe there is now no case for making these operational freedoms permanent. But the trials did not test our short/medium term proposal to Schedule ATMs more evenly and we hope the Commission will continue to give this consideration.

The trials focused on improving performance within the confines of the daily flight schedule. We proposed to the Commission that relating the schedule to capacity would be more productive and would reduce the peak hour bottlenecks. More even scheduled distribution of aircraft movements across each hour of the day at Heathrow would reduce stacking, disruption and delay in peak hours and provide sufficient capacity to end night flights. References in the media and elsewhere to Heathrow being full misleadingly compare peak scheduled use against capacity and hide the fact that it is the schedule rather than the capacity that is the problem. Our proposal seeks to address the schedule issue and provides similar benefits to those sought but not available from the operational freedoms.

Longer term - aviation taxation

In our proposals to the Commission, we argued that if aviation taxation (in the form of Air Passenger Duty “APD”) continued to increase over the next thirty seven years at the same rate that it has increased since APD was first collected eighteen years ago, it might be expected to depress the forecast rate of increase in passenger numbers. As a point of clarification, we are not suggesting that the Airports Commission should recommend an increase in APD or the extension of APD to transfer passengers. We understand that APD and tax issues fall outside the Commission’s terms of reference but nevertheless we do hope that the Commission at least would acknowledge that future levels and structure of aviation taxation and its extension to transfer passengers could influence the level of future demand and capacity utilisation.

Longer term - regional balance

In our proposals to the Commission, we argued that the historic trend shows that the proportion of passengers using UK airports is decreasing in South East England relative to other regions; and that if that trend continues in future - particularly bearing in mind widespread agreement among the political parties about the need to re-balance the UK economy away from the South East - it should be expected that future passenger numbers, while they would continue to increase in the South East would do so at a slower rate than in the other regions. Again, we are not asking the Airports Commission to add its voice to those who are calling for the rebalance. But we hope that the Commission would acknowledge those calls, and would point out the potential consequences for passenger demand in all regions.

Longer term - carrying capacity of the air fleet

In our proposals to the Commission, we argued that the historic trend showed that the number of passengers carried per aircraft movement had increased steadily over time, and that this trend should continue in line with any increase in overall passenger numbers. As a point of clarification in the light of reactions from others, we are not suggesting that overnight all airlines would replace their entire fleets with 500-plus seats. We are saying that over the next forty years it is reasonable to expect the average carrying capacity to continue to increase steadily and significantly compared with twenty years ago and compared with today. We hope that the Commission will acknowledge this trend, particularly bearing in mind that the proposals submitted to the Commission for runway development indicate a much smaller increase in the number of passengers per movement than the historic trend.

Longer term - hub and transfer strategy

Sir Howard's speech we understand did not address the Commission's thinking on transfer passengers and the hub, but we assume that this will be a key feature of the Interim Report and subsequent evaluation of options.

Recent proposals to the Commission, public commentary and for example the treatment of a hub airport in the Report on Aviation by the Transport Select Committee have highlighted the absence of critical examination of the benefits of a hub airport especially in terms of transfers. We have still not seen any explanation of why throughout the period since 1990 transfer passengers at Heathrow have grown at a consistently faster rate than terminating passengers or of why the aviation industry thinks that the travelling public prefers transfer flights to direct flights.

We have provided the evidence on this matter in our proposals and suffice to say here that using international transfers to make long haul destinations viable we believe is a myth. Instead, the transfers facilitate frequency of service but generally to the most popular high frequency destinations and more than doubling of passengers over the next forty years will add still more unnecessary frequencies. Transfers are carbon indulgent and generally not the preference of passengers and they provide little economic benefit to the wider UK. The benefit largely accrues to British Airways and it is surely time that this significant distortion of the markets was addressed.

Were Heathrow's international transfers replaced over time by local southeast demand, as we propose, this would provide over the next 40 years for around 35 million passengers per annum (mppa) of growth in the UK passengers (a little short of one runway equivalent). Replacement of international transfers and the associated flights would add a large amount of capacity for increased connectivity in terms of the number of destinations and service frequencies where appropriate.

Without dependence on transfers the opportunity arises for development of a dispersed airport structure which can involve all five London airports without any single one being a transfer hub. Conversely, the hub concept requires an ever growing number of transfers and concentration of demand at a single airport, which runs contrary to the Competition Committee's split of airport ownership in recent years.

We sincerely hope therefore that the Commission will critically examine the alleged benefits of international transfers in terms of their impact on demand, connectivity and airport structure and in doing so consider and take forward the evidence and proposal we have provided.

Longer term - climate change impacts

On the subject of climate change Sir Howard Davies said in his speech "Here we take our cue from the Committee on Climate Change" He went on to say "Specifically, it is suggested that UK-sourced demand could grow by roughly 60% to 2050, relative to a 2005 baseline." He added that "Growth beyond that, unless current assumptions about fuel efficiency and the use of alternative fuels prove to have been overly pessimistic, would put great pressure on the rest of the economy to achieve carbon reductions, which could be very costly." This limit is generally regarded as meaning 370 mppa across the UK in 2050. This is far less than the 480 mppa of unconstrained demand in 2050 in the central forecast by the DfT in January 2013 and widely used in proposals to justify new runways. The DfT believes the runway constrained forecast of 447 mppa in 2050 is achievable with existing runway and terminal capacity but even this is way in excess of the climate change limit.

In order to get over the dilemma of climate change demolishing the case for any runway expansion, the proposals to the Commission for new runways/airports make three claims: (1) carbon trading will come to the rescue but this merely passes the buck to the rest of the UK economy, which itself will struggle to decarbonise by 80% by 2050 compared to 1990; (2) the

state should partly fund runway expansion and take the demand risk; and (3) a disproportionate amount of carbon credit should be allocated to the particular runway project leaving little for growth elsewhere.

Sir Howard raises the questions “In short, how do we deliver the maximum connectivity bang for each of our carbon bucks”. We believe our set of proposals to the Commission for better use of existing capacity with no additional runways is ahead of any runway proposals in achieving passenger growth and connectivity within carbon targets and in dealing economically with the long term uncertainty and risks of climate change. For example, higher loads produce less carbon per passenger. We are not suggesting capacity be used as a tool to reduce the carbon footprint but rather the reverse in that the carbon issue may well make extra runways redundant and place emphasis on achieving passenger growth by better use. In so far as the debate on aviation and climate change has some way to run, we believe the RHC proposals should be acknowledged in case the Government decides to set a higher priority for meeting carbon reductions in the aviation sector.

We do not consider that the contents of this submission are confidential and we have no objections to its publication.

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31 October 2013