February 2015

Dear Sir/Madam,

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Airports Commission consultation into the question of where to deliver additional airport capacity.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with around 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent to national GDP and employ 60 per cent of the private sector workforce.

The Commission has made a clear case that additional capacity is required in the South East. We will hold the next Government to account to ensure that the recommendations of the Commission are taken forwards as quickly as feasible – following our existing manifesto commitment.

We have not taken a national position on whether we view expanding one of Heathrow or Gatwick as the best option for small businesses in the UK. Some of our regions have strong views favouring one or the other options presented by the Commission, and will be submitting separate evidence putting forth the views of their individual region.

What our members are united on is the need for a more integrated approach to infrastructure planning to be taken. Whatever option is recommended, we believe that the Government must deliver the necessary surface access upgrades. The debate about expanding aviation capacity has highlighted the urgent need for future Governments to take a long term strategic approach to major infrastructure decisions. To fail to do so will only serve to hinder the economic growth of small businesses across the country.

Members from across the country have also told us that greater support for regional airports is required. Many small businesses rely on these airports more than airports in the South East, especially in areas where transport links to the South East are limited.

The FSB would like to see more detail from each of the proposals on how procurement opportunities will be opened up to small businesses. We would like to ensure that best practice in procurement practices are established and would welcome the opportunity to work with the Commission or any of the shortlisted bids to ensure that small businesses are able to benefit from the economic opportunities that you have identified.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

[redacted]

Federation of Small Businesses

What conclusions, if any, do you draw in respect of the three short listed options? In answering this questions, please take into account the Commission's consultation documents and any other information you consider relevant.

Our response to the Davies Commission consultation sets out the following recommendations and analysis:

- the views of small businesses across the country on what is important to their business;
- our analysis of some of the strengths and weaknesses of the respective bids;
- a brief summary of the approach we took to reach these positions.

The FSB has engaged with our members on this debate, and has developed a series of nationally agreed policy positions

- The FSB will not take a view on which of the three shortlisted options should be recommended by the Davies Commission.

- The FSB will however support the Commission's final recommendations. Our overriding priority is for the Government to deliver a new runway at the earliest opportunity. We believe that all parties should commit to quickly deliver on this as part of their election manifestoes.

- We strongly believe that further action is required to rebalance the national economy. Achieving this will require a long term strategic approach to infrastructure development along with future support for the regions, both through supporting regional airports and through increasing procurement opportunities.

- The analysis presented by the Commission is comprehensive, but we would note that it would be helpful to consider the needs of small business owners as distinct from the business users whose needs are otherwise assessed.

- Multi-modal surface connectivity is a key priority for our members. Whilst the Commission has stated that surface access upgrades will provide sufficient capacity to deal with expansion, the Government must also act to ensure that all of the necessary upgrades are delivered. Members raised concerns that integrated surface access connectivity had not been thought through in as comprehensive a manner as it could have been by some of the different bids.

- The Davies Commission should highlight to Government that a long term, strategic approach is needed when making future infrastructure decisions. Any infrastructure investment must sit within a wider strategic framework and take all modes of transit into account. A strategic plan would ensure that all modes of transport are effectively linked together.

- Support for regional airports will allow the Government to achieve the long term policy aim of rebalancing the national economy away from London and the South East. The FSB believes that regional airports therefore need support, as they are vital to members across the country. We would like to see domestic routes developed and safeguarded to ensure that regional airports can grow and experience the benefits of expanding capacity in the South East. Regional airports play a key role in delivering domestic and international connectivity for many small businesses.

- We would also like to see more from the different proposals on the shortlist on how they will allow SMEs to compete for procurement opportunities. These opportunities should be targeted across the country in order to allow small firms in all regions to economically benefit from airport expansion.

Further detail on our policy positions is presented below, following a summary of the process we carried out to consult our members on this issue.

The FSB has carried out a transparent and open process to assess the views of our members across the country.

The FSB is a member led organisation – and our reputation is based on being responsive to the priorities and views of the individual small businesses which make up both our membership and the national leadership. All of the analysis and requests identified within our response to this consultation have been debated and approved by the FSB's National Policy Committee (NPC). This body consists of policy chairman for each of the different policy portfolios covered by the FSB, who work alongside regional representatives covering all of the UK.

Representatives from all of the shortlisted bids attended an October meeting of the NPC. They separately presented their case as to why the FSB should consider making an endorsement of their bids. All three presentations were tailored to reflect the interests of the small business community, focussing on how their bids would provide the most opportunities for small businesses across the country.

Following this, the FSB launched a nationwide consultation of our membership to identify what the views of small businesses were. We received a range of different views from different regions along with individual responses from members from all areas of the country. The FSB provided neutral guidance and analysis to assist members in their decision making process.

Whilst some regions were clearly in favour of one option or another, the majority of regions preferred to make no endorsement. The response from individual members similarly reflected a near equal split across the different proposals. As a result, the FSB made the decision that we could not claim a mandate from the national membership to endorse any one of the bids.

There were however clear messages which unified our members, which form the main substance of our response to the Commission.

It is clear that future Governments need to prioritise the delivery of a long term integrated strategic plan.

The overriding message from small businesses across the country is concern about the fact that successive Governments have failed to take the difficult long term decisions which are needed to provide the infrastructure small businesses rely on to compete in the global economy. Instead, infrastructure planning has been short term and has lacked a joined up strategic approach.

The end result of this lack of planning has been that urgent decisions have not been taken, with the effect that national economic growth and productivity has been unnecessarily constrained.

The FSB strongly believes that in future, a more coordinated approach to infrastructure planning is required. This approach needs to take all modes of transport into account and ensure that different transport infrastructure should link together. In the case of a development like any proposed airport expansion, the Government should consider how to ensure that citizens from all different regions of the country can access this.

We remain concerned that surface access upgrades will not be able to effectively cope with increases in passenger volumes to any of the three proposals.

The need for improvements to surface access transport options was another key issue which members responded to our consultation with. This ties in to the need for longer term planning which encompasses all modes of transport.

Whilst we recognise that Commission analysis states that the planned surface access upgrades should be sufficient to cope with an increase in passenger numbers in future, we remain concerned that passenger volumes could increase beyond that which is anticipated. This will obviously have a significant impact on congestion and will reduce the benefits delivered through expanding air capacity.

Members felt that the HAL and Gatwick proposals could have done more to set out how their plans will integrate surface access options. The Heathrow Hub proposal was viewed as having set out a better planned approach to integrating surface access connectivity within their bid. A more detailed vision from the different bids showing an integrated plan towards surface connectivity would help mitigate these concerns.

We also remain convinced that the Government needs to prioritise the delivery of infrastructure projects. We would expect the next Government to act on the recommendations of the Commission, but it will also need to make sure that the other surface access upgrades identified by the Commission are also delivered. This will be critical to the overall success of this project.

Members in Yorkshire also identified the 'Electric Spine' development as a project which would improve connectivity to London airports, and which should therefore also be delivered as a priority.

Regional airports need to be supported in order to facilitate the rebalancing of the national economy.

The FSB has always stated that regional airports need support, as they are vital to members across the country. We would like to see domestic routes developed and safeguarded to ensure that regional airports can grow. The growth of international routes from regional airports would also offer small firms across the country quicker access to international markets.

Members from across the country reinforced this point. Many viewed the debate about which airport to expand as a London-centric issue which would not have a huge impact on the day to day operations of their business. There was real concern from members that expanding either Heathrow or Gatwick would serve to further increase the advantages that London and the South East over the rest of the country. This would make it that much more difficult for other regions to compete economically with London.

Having access to regional airports provides economic benefits to the region they are in. The UK is generally well served by a network of small, regional airports, but these need to be supported in order for different regions outside of London to continue to experience these benefits. This will help different regions grow economically and rebalance the economy away from London and the South East.

Whatever airport is expanded, we would like to see more work done by the Government to ensure that domestic routes are protected and expanded. The Government could investigate whether introducing a public service obligation (PSO) regime would help safeguard key domestic routes. This could be a key way in which regional airports will be able to benefit from any expansion in South Eastern capacity.

We are concerned that an expansion in capacity at either site will not deliver the forecast increase in domestic routes. We understand that airports will prioritise filling more valuable international slots, but it is critical to our members that expanding aviation capacity delivers actual benefits to the rest of the country.

Whilst this is outside the purview of the consultation, we would like to see regional airports expand as well so as to allow them to be offer new services to an expanded range of destinations. We welcome recent market developments which have seen regional airports start to offer new connections to longer haul international markets and would like to see further support for these trends.

Our members also provided an analysis of the different bids presented by the Commission

Different regions and members submitted evidence to the FSB highlighting why they supported one bid or the other. This analysis was presented alongside the other issues which have been referenced above.

Whilst we asked our members to provide an assessment of all three bids, for the most part, the analysis provided relating to the extended northern runway and north western runway proposals at

Heathrow were the same. As a result, the analysis focussing on Heathrow encompasses both proposals.

As stated above, there was no consensus within the national membership as to which bid to support. The analysis below instead shows some of the reasons given by small businesses as to why they believed one or the other bid was most worthy of support.

Analysis of the Heathrow proposals

Primary argument	More detailed analysis
The economic and jobs boost offered by Heathrow was viewed as persuasive	The analysis presented by the Davies Commission concerning the benefits to GDP and employment figures were viewed as a key reason to support the expansion of Heathrow by some members. In particular, the fact that the range of economic benefits produced by Heathrow and Gatwick only narrowly overlapped was viewed as especially persuasive. The high number of jobs supported by Heathrow was also viewed as a positive reason to support expansion there. Small businesses, particularly those based in the South East, felt that the freight opportunities offered by Heathrow were also a good reason to support expansion there. This was particularly important for those members who export who felt that Gatwick would have to make significant investment in freight in order to have any chance of competing with the facilities already on offer at Heathrow.
Concerns were raised about the impact on regional airports	The impact on regional airports and competition within the UK was a core concern for members who favoured expanding Gatwick, as they worried that expanding Heathrow would mean that the airport would be even more dominant within the UK network than it currently is. This position would reduce competition throughout the network as other airports would struggle to compete with Heathrow. One way which was proposed to avoid this would be if routes could be expanded and protected via a PSO to ensure that domestic connections and routes are maintained. On the other hand, the fact that many regional airports have endorsed expansion at Heathrow was raised. The evidence presented by the Commission does suggest however that expanding Heathrow would not necessarily lead to growth in the domestic routes into Heathrow itself. In particular, there was concern that expanding Heathrow would simply result in BA taking an even more dominant position within the airport, especially following the recent Aer Lingus takeover bid. Regions around Birmingham Airport were particularly supportive of Gatwick and were heavily influenced by the support of Birmingham

	Airport for the Gatwick Airport proposals. The regional business community were strongly supportive of the continuing expansion of Birmingham Airport itself in order to develop new long haul routes.
The effect on network resilience was also debated	Resilience within both the London and the national aviation network will become increasingly important as reliance on air travel increases. Members raised concerns that expanding Heathrow would increase the importance of the airport within the national network, and would therefore increase the costs if the airport was closed for any reason. Whilst resilience was a concern for members, many accepted that any weather events which shut down Heathrow would probably also shut down Gatwick. It was recognised that any location-specific event shutting down Heathrow would not mean that flights or capacity could easily be switched to Gatwick in any event.

Analysis of the Gatwick proposal

Primary argument	More detailed analysis
Regional airports and competition could benefit from expanding Gatwick	It was thought that Gatwick has a good case to make in terms of providing competition within the London and UK airport network. Network resilience could also be improved through delivering this option. The Commission has found that Gatwick would enhance competition within the London aviation network. Heathrow would be less dominant, and expanded opportunities for lower cost airlines would exert downward pressure on prices. Many members responded to our consultation stating their belief that within the UK-wide aviation framework, expanding Gatwick would mean that Heathrow is less dominant. Other regional airports could then be able to take advantage of greater competition to build up their own point to point networks. Many members believed that expanding Gatwick could enhance the number of airports delivering different services at different price points. This would offer flexibility and different options to different types of consumers.
Airlines may not choose to move to Gatwick	Members thought that as Heathrow is already operating at capacity, the market has made their choice about where they want to base their operation. If Heathrow wasn't attractive to operators, more would have already have chosen to switch their services to Gatwick.
Gatwick offers less international	Members raised concerns about the number and range of international destinations served by Gatwick compared to Heathrow under the

connectivity	different scenarios presented by the Commission. Expanding Heathrow would offer greater international connectivity to emerging markets. This would provide a benefit to small businesses. It also could be seen to provide an illustration that airlines will continue to prefer to operate out of a hub airport. Gatwick's operating model relies on the assumption that the future of travel is on low cost, point to point travel. There is a risk to the viability of Gatwick if that model does not take hold.

Do you have any suggestions for how the short-listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated?

All of the bids need to present more detailed commitments about how they will ensure that small businesses have opportunities to access procurement opportunities

Across a range of different infrastructure projects, small businesses have raised the issue of procurement opportunities as a key factor in assessing how positive for the small business community a given project will be. In order for the economic benefits identified by the Commission to be realised, small businesses must be able to compete for appropriately sized contracts.

Procurement opportunities need to be made available to small businesses across the country. Doing so will provide real economic benefits to small firms and help to rebalance the economy outside of the South East. The bids should learn the lessons of the London Olympic and Paralympic Games when not enough contracts were won outside of businesses outside of London, despite a strong communications programme on procurement opportunities. We would like to see all of the different bids make commitments to provide procurement opportunities to small businesses across the country.

We would like to see the Commission use take-up of best practice procurement as a means of assessing which bids will produce the most benefits for the economy. As with other major investment projects, we would like to see the different make the following commitments:

- package contracts as a series of smaller opportunities;
- streamline and clarify the tender processes;
- promote contract opportunities through a single, simple web portal;
- hold procurement events across the nations and regions to help local small firms win business

The proposal which most effectively brings these best practice measures into their operations will provide the best opportunities for small businesses. As a wider point, we would also like to see that the terms and conditions imposed on Tier One suppliers by the recommended bid be passed down through the supply chain to ensure that all suppliers are treated fairly.

We will continue to work with the different short-listed bids to help them work to integrate procurement best practice into their business plans, and look forward to working with whichever bid is recommended by the Commission to further refine these plans once the Commission recommendations are published.

Do you have any comments on how the Commission has carried out its appraisal?

The Commission has presented a comprehensive analysis of the different options on the short list – the Government must now swiftly act to deliver these recommendations.

The Commission has carried out a far reaching analysis of the different shortlisted options. In our view, the evidence assembled by the Commission should leave the next Government in no doubt that following the Commission recommendations will be the only course of action. As pledged in our 2014 Business Manifesto, the FSB is committed to ensuring that the next Government is focussed on economic growth – delivering on the Commission recommendations will be a key factor for us in assessing this commitment.

It would be helpful to have some more clarity about the dates which the Commission is aiming to produce the final report. We recognise that the Commission will not be able to make this determination at this stage, but would welcome more details on this at a closer date.

In your view, are there any relevant factors which have not been fully addressed by the Commission to date?

The Commission could carry out further analysis on the specific aviation requirements of small businesses owners and employees

As referenced above, the FSB believes that the Commission has conducted a comprehensive review of different areas of relevance. Within this, the needs of business and leisure travellers are analysed separately, as would be expected.

What the Commission should recognise is that within the concept of the 'business traveller', there could be a significant range of different travellers, including those who own, or are employed by a small business. It is reasonable to expect that a small business owner, constrained by time and financial pressures, will be far more responsive to the price of a flight than other business travellers. On the other hand, an employee of a large corporation will probably be able to expense the cost of their flights, but may value other factors more than a small business owner.

The FSB asked small business owners about how important air travel was to their business in a 2013 survey.[1] This found that 27 per cent of small businesses put at least some importance to aviation for their businesses.

[1] FSB The Voice of Small Business survey panel, Infrastructure Survey, April 2013

Whilst this figure is likely to be lower than what the large business user would say, what is important to note is the relative size of the small business sector. The most recent Government figures found that there were over 5.2 million businesses in the UK, of which over 99 per cent were small businesses.[2] In this context, close to 1.5 million small businesses place some importance in aviation.

We therefore believe that it is not enough to assess the needs of business travellers as a single class. As a result, it would be helpful for the Commission to conduct further analysis into the specific needs of the small business community.

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[2] BIS Statistical Release, November 2014, Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377934/bpe_2014_statistical_release.pdf