



To:

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Sir Howard Davies
Chair, Airports Commission

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Dear Ms Arnold,

Thank you for inviting me to appear before the Greater London Assembly and for providing a copy of the draft transcript. On reading the transcript, I was struck by the fact that many of the questions were focused on issues raised by Gatwick Airport Ltd (GAL) and the Mayor of London in their recent critiques of the Commission's work. I thought it may therefore be helpful to explain why we believe strongly that our analysis is robust to the arguments that they have made.

In respect of Gatwick Airport Ltd, I wrote to the Secretary of State for Transport earlier this month, explaining the Commission's position and addressing the key points that were made. This covers points made by members of the Greater London Assembly regarding regional connectivity, economic benefits (both the conventional economic analysis and the more innovative work on wider economic impacts carried out by PWC) and air quality. A copy of that letter is attached.

My letter to the Secretary of State also deals in some detail with the issue of traffic forecasting. In the light of the Assembly's questioning, however, I would like to stress one point in particular. We are aware that GAL expects the airport to reach 40m passengers this year, earlier than our forecasts predicted. The Commission's forecasts are, however, based on long-term trends in aviation demand. Gatwick is performing strongly at the moment (it saw an increase in passenger numbers of 2.7m in 2014, more than in any of the previous ten years), but that has not always been the case. Between 2007 and 2010, annual passenger numbers at Gatwick fell by almost 4m. The Commission forecasts steady long-term growth at Gatwick but it is inevitable that there will be periods when outturn passenger numbers drop behind this growth rate or, as is currently the case, move ahead. That is the nature of forecasting. The fact that the Commission's forecasts are not exactly in line with current performance does not mean that they are not robust.

Turning now to the arguments made by the Mayor of London, there are five additional areas that remain to be addressed: capacity and resilience, connectivity, noise mitigation, surface access and finance.

Capacity and resilience

The Mayor argues that a three-runway Heathrow operating at or close to its capacity of 740,000 air transport movements (ATMs) per annum will suffer the same resilience issues as are experienced at the airport today. This is incorrect.

The airport currently operates in 'segregated mode' with one runway used for arrivals and another for departures. As the airport's capacity is highly utilised, the only option in the event of disruption or congestion is to switch to using one runway in 'mixed mode' (i.e. for both take-offs and landings) to increase capacity. In contrast, one runway at the expanded airport would operate in 'mixed mode' throughout the day. This creates greater flexibility to manage congestion, as the balance between arrivals and departures on the mixed-mode runway can be adjusted to deal with spikes in demand. Effectively, the mixed-mode runway acts as a balancing mechanism, allowing the other two runways to remain as arrival- and departure-only. Furthermore, the new infrastructure would increase runway capacity by 50 per cent (and potentially more as a mixed-mode runway may often accommodate a higher number of movements than a runway operating in segregated mode), but a smaller increase of around 42 per cent in peak scheduled movements is proposed. This would create a valuable additional buffer to manage the flow of traffic and deal with disruptive events.

This is highly relevant to the reliability of respite, which was an issue highlighted by local communities as being of significant importance. Currently, on many days respite through runway alternation is temporarily lost in the morning, as the airport must switch to mixed mode to deal with a peak in arrivals. The additional resilience described above would help to avoid this, ensuring that local residents' are less frequently disturbed on mornings when they expect to be able to sleep in peace.

There is one further point that it is important to make about respite. The Mayor's analysis focuses solely on respite resulting from runway alternation, but this is not the only means of delivering respite. Modern navigation techniques will allow respite also to be provided through alternating flightpaths. While runway alternation will continue to be crucial for many of those living in the closest proximity to the airport, respite through flightpath design could nonetheless deliver additional benefits to the vast majority of those people in London experiencing aviation noise.

Connectivity – long-haul and domestic

The Mayor's report suggests that an expanded Heathrow would see fewer long-haul destinations served on a daily basis in 2030 than are available at the airport today. This is, however, a flawed analysis.

First, the Mayor is comparing apples with pears. He has calculated current 'daily long-haul destinations' by looking at the airport's summer 2015 timetable, but all airports have some degree of seasonality to their scheduling and a 'daily service'



which only operates for part of the year is of limited use to a business passenger. We took a more rigorous approach, defining a 'daily destination' as one seeing more than 360 services a year. On this basis, as shown in Figure 2.8 of our Final Report, in 2014, which is the most recent year for which complete data is available, Heathrow served 61 long-haul daily destinations, substantially fewer than the 74 claimed by the Mayor.

Second, as with the Mayor's analysis of domestic connectivity, the key comparison is with what would happen without expanding capacity, not with the current situation. On that basis, expansion is forecast to generate 10-12 additional long-haul routes at the airport in 2040, an increase of up to 20 per cent.

Both Gatwick Airport Ltd and the Mayor have also claimed that expanding capacity at Heathrow would not improve domestic connectivity. I have highlighted in my letter to the Secretary of State a number of shortcomings in their arguments, and will not repeat those here.

I would, however, make one further point. The Commission is clear that additional capacity is the crucial first step in protecting and expanding domestic links to Heathrow (and hence to its broad international route network) and that effective use of Public Service Obligations and other measures, such as differentiated charges, can play a valuable supporting role. The number of routes from the airport, however, is not the only measure of connectivity – frequency and capacity are also important.

Over the past 25 years, the number of domestic flights into Heathrow has fallen by almost half – from more than 40,000 in 1990 to just 23,000 in 2014. Expansion at Heathrow would provide the opportunity to reverse that trend, and the Commission's forecasts suggest that this would see the number of domestic passengers at the airport rise very substantially to around 3 million by 2050 – almost treble the number that without an additional runway. That high level of suppressed demand is likely to underpin easyJet's interest in serving a broad domestic network from the expanded airport, which could both provide new links to destinations such as Inverness and enhance competition on existing routes.

Noise Mitigation

In our Final Report, the Commission proposed a substantial package of measures to manage, mitigate and compensate for the noise impacts of the expanded airport. I deal with the Mayor's criticisms of a number of these measures below.

Community Engagement Board: The Mayor states that it is 'not clear' why this would be different from existing bodies. Our Final Report sets out a number of important differences, including an independent Chair, influence over spending on noise insulation and compensation, and oversight and enforcement powers in relation to the delivery of agreed mitigations. As we have noted, the 'Alderstafel' at Schiphol Airport provides a model for a Community Engagement Board which is clearly stronger and more influential than the available mechanisms in the UK today.

Independent Aviation Noise Authority: The Mayor's report states that this would not have any real decision-making or enforcement powers. That is wrong. The Commission's Final Report is clear that the authority should have a lead role in assessing performance against noise regulations and, where it identifies that due process has been breached, 'it should have powers to intervene and should be able to require organisations to review and amend relevant guidelines or, in extreme cases, to fine organisations.'

Night Flights: The Commission heard from many local stakeholders in the course of its work about the significant detrimental impact of the small number of flights that arrive each day before 6am, and has proposed that if the airport is expanded these should be banned. The Mayor argues that this does not go far enough as flights would continue to operate in the period between 6-7am.

While we recognise the importance of reducing early morning noise where possible (our Final Report recommends looking further, for example, at the use of displaced thresholds and incentives for operating quieter aircraft in the period before 7am), some of the Mayor's arguments are misplaced. The night ban would not 'result in a very intensive period between 0600 and 0700'. The airport would be able to accommodate the same number of movements in this period whether a ban on night flights is in place or not. And although it comes as no surprise that the airline community has not welcomed this element of our proposals, our analysis did not identify any firm restrictions to prevent rescheduling the flights currently arriving before 6am to the following hour.

Surface Access

The Mayor's report argues that the Commission has underestimated demand for surface access from the expanded airport and hence underestimated the associated costs by £10-15 billion. The Commission has in fact been entirely transparent in its approach to assessing surface access demand. We have looked in quantitative terms at demand to 2030, as reasonable assessments can be made over that period of the expected growth in background demand and the investments which may be made to address that growth, in order to identify the incremental impact of the airport. Contrary to the Mayor's assertions, these assessments have included analysis of freight impacts (which also informed the Commission's air quality analysis) and modelled analysis of public transport mode share, taking into account the proposed surface access provision for the expanded airport.

We have also acknowledged that rising passenger numbers beyond 2030 will continue to put stress on the Capital's transport networks, and we have carried out a qualitative assessment of the scope to address this. As the Final Report notes, however, the primary driver of congestion beyond 2030 is background demand growth, which the Government will need to take action to address, and the impacts of airport expansion are not a transformative factor which would significantly alter the scale of these challenges.

The surface access costs identified by the Commission for expansion at Heathrow include significant investment in road improvements as well as the provision of a new southern rail access link to the airport. The Mayor argues that these are insufficient to deal with passenger demand. His submissions in support of a new Estuary airport, however, suggest that the majority of the additional expenditure that he is proposing relates to additions to the HS2 scheme (a spur to the airport and an HS2-HS1 link) which would do little, if anything, to address congestion on the London transport network, and a new line from Waterloo (where it would connect to Heathrow's southern rail access) to Barking Riverside via London Bridge and Canary Wharf. Whatever the merits of any such line, it would clearly serve a range of markets and catchments entirely unrelated to the airport. It is not obvious, therefore, why the Mayor believes that the airport would provide the primary justification for it.

Finance

The Mayor's report states that Heathrow's owners are likely to approach Government to provide insulation from risk when financing any expansion, and that this has not been addressed in the Commission's Final Report. In fact, our Final Report deals explicitly with exactly this point. In reaching our views on the commercial viability of the three short-listed schemes, we sought the views of the investor community, including Heathrow Airport Ltd's current shareholders. On this basis, we concluded that, while the airport may well seek the best possible deal from Government, in current market conditions expansion would be likely to be financeable without public sector involvement. If market conditions were to change, however, our report acknowledges that the Government may wish to take steps to facilitate investment, for example through an approach to the European Investment Bank or the provision of something similar to the current UK Guarantee Scheme. Both the Commission and the CAA have also acknowledged the potential need for changes to the structure of the regulatory regime, and the CAA has recently consulted on this question.

The Mayor also raises concerns about the increase in aeronautical charges that would be required to fund any expansion at Heathrow. This increase would, however, be modest – less than £10 – compared to an average ticket price of over £300 at the airport. Even if the airport was required to pay the full surface access costs associated with expansion, we estimate that this would only add another £2 to the aeronautical charge. Furthermore, our analysis of competition within the aviation industry suggests that the overall outcome for passengers would be a reduction in fares, as the effects of competition in driving fares down, for example through the entry of low-cost carriers into Heathrow, would more than outweigh any increase due to higher aeronautical charges. Clearly, no airline will welcome these charges rising, but neither our analysis nor the submissions to our consultation led us to conclude that the increases that we identified would be unmanageable.

I hope this letter provides a useful explanation of how the Airports Commission considered the issues raised by the Mayor in the course of its work. In conclusion,



however, I would like to make a small number of broader reflections on my appearance before the Assembly.

Much of the session focused on the challenges of expansion at Heathrow such as noise, air quality and surface access. This is right and proper. These are important issues for London that need to be carefully analysed and addressed. What was absent, however, was any serious consideration of the role of aviation, and the benefits of expansion, in supporting the capital's long-term prosperity.

We did discuss whether the economic benefits of expansion at Heathrow outweigh those of Gatwick. The Commission believes that they do. As I have explained in my letter to the Secretary of State, the decision that faces the Government is not primarily a public investment decision, but rather a decision as to which of a number of private sector schemes, in each case likely to be funded significantly by international investors, should be facilitated through the planning system. The key question is therefore which scheme delivers the greatest economic benefits for the UK. The Commission's analysis clearly shows that those from expansion at Heathrow are around two-thirds higher than those from a new runway at Gatwick.

The broader strategic case for expansion is also compelling. London is a global city and hosts the world's largest aviation market. Despite its capacity constraints, Heathrow plays a pivotal role in the global aviation system and until recently saw more international passengers than any other airport in the world. Those factors are crucial to London's continuing success. The sectors in which it performs most strongly, from financial services to higher education, are dependent on diverse and effective international links, best provided by a thriving airports system, with a world-class hub airport at its core. Expansion at Heathrow provides the opportunity to achieve this – generating as many as 70,000 jobs in the surrounding areas, providing new and more frequent connections for passengers and freight, supporting the export of goods and services and enabling Londoners to visit friends and family across the world.

The Commission has never underestimated the challenges of expansion. These will need to be addressed. But in considering those challenges, it is important that the benefits of expansion are not forgotten or sidelined. London's connectivity is at the heart of its prosperity; in our view, that should not be put at risk.

A copy of this letter will be placed on the Airports Commission website.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Howard Davies', written in a cursive style.

Sir Howard Davies, Chair