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30th October 2013

To The Airports Commission
6th Floor
Sanctuary Buildings
20 Great Smith Street
London SW1P 3BT
emerging.thinking@airports.gsi.gov.uk.

Dear Sirs,

Heathrow Airport Limited – Response to the Airport Commission’s emerging thinking on airport capacity in the UK

Heathrow supports the evidence based approach the Airports Commission is taking in its assessment of the options for maintaining this country’s status as an international hub for aviation. We agree with the Commission’s determination to both find the right solution and to build consensus for it.

Heathrow broadly supports the Airport Commission’s provisional conclusion, “that we will need some net additional runway capacity in the south east of England in the coming decades”.

We are commenting on several topics addressed in the Commission’s emerging thinking paper. Four topics are areas where we are in agreement with the Commission and three are areas which we think deserve greater emphasis as the Commission’s thinking continues to emerge. The areas where we support the Commission’s emerging thinking are:

The economic value of connectivity. The Commission finds that: “Connectivity by air is a crucial factor” and that the economic cost of connectivity will “bite sooner” than for our Euro competitors.

We agree. Competitor hubs including Frankfurt, Paris, Amsterdam, Madrid, Dubai, Istanbul and Doha either already have, or are committed to developing, capacity at a single hub that is 50% greater than Heathrow. London can only compete in the global race for trade, jobs and economic growth if it has the capacity at a single hub to do so.

The importance of scale. The Commission finds that “Some routes will only ever be available from the largest airports”

We agree. Only a single hub airport can provide the flights to long-haul destinations that Britain needs to connect to growth. However the UK’s hub is full and we are beginning to fall behind our competitors. There is a wide range of emerging market destinations with regular flights from other European hubs that are not served from Heathrow: including destinations such as Nanjing, Lima and Wuhan. In the ten years that Heathrow has been full, London’s point to point airports have failed to deliver flights to long-haul business destinations. Airlines that have been unable to access slots at Heathrow have tried and failed to make long-haul flights from other London airports work. At Gatwick for example, a total of 20 long-haul airlines have withdrawn in the last five years.

Many of the airlines that have pulled out of Gatwick are instead operating flights to economic competitors in France, Germany and Holland. The issue is not a lack of demand from London, but that without levelling out the daily peaks and troughs in local demand with transfer passengers, Gatwick cannot fill long-haul aircraft and compete with Paris, Frankfurt, and Amsterdam. Some of Gatwick's flights to Vietnam, one of the last long-haul services to an emerging market from the airport, are now flying via Frankfurt to pick up more passengers to make the flight viable.

Hub airports, where local passengers combine with transfer passengers, are uniquely important in allowing airlines to fly to global markets. Heathrow serves more than 70 global destinations that are not served by another UK airport and is one of only six airports world-wide that serves more than 50 long-haul destinations. This gives UK consumers a greater choice of destinations and makes Britain a more attractive location for international business. This source of competitive advantage for the UK cannot be sustained by adding to the UK's already surplus point to point capacity.

The UK's competitive advantage would also be undermined by the creation of two hubs, which would only split the hub function to the severe detriment of the UK. A split hub is the very antithesis of efficiency, diluting rather than compounding the benefits of agglomeration which a hub is evidenced to bring. A case in point is the Haneda / Narita experience. In the early 1960s, Japan's main hub at Haneda was reaching capacity but the government ruled out its expansion, opting for Narita which was 36 miles east instead. Despite having a city and economy three times the size of London, Tokyo slipped from 1st to 7th in Asian city connectivity rankings in the three decades following Narita's opening in 1978. Recognising the failure of the split hub, the Japanese government reversed its policy and is now expanding Haneda. Global network airlines (including British Airways) have since switched services from Narita to Haneda.

In conversations that I have had with each of the Chief Executives of Delta Airlines, Air Canada, United Airlines and Star Alliance, they have expressed astonishment at the suggestion that any of them might be expected to move away from Heathrow to Gatwick. A split hub is not the solution and could only generate weakness and confusion in the UK's aviation offer.

Delivering maximum connectivity for each of our carbon bucks. The Commission finds that "the best solution for the UK... has to be one that both achieves our carbon targets and delivers the connections that our economy and society demand"

We agree. Climate change is a significant issue for the aviation sector and we are fully committed to playing our role in addressing it. We share the Commission's emerging thinking that the two objectives of achieving carbon targets and delivering connectivity are not irreconcilable goals.

The Commission's emerging thinking goes on to raise the question "How do we deliver the maximum connectivity bang for each of our carbon bucks?" Four factors will be central to addressing this question.

Firstly, the relatively greater carbon efficiency generated by the hub model, distinct from the more dispersed point to point model means that hub capacity enables higher yields and more direct long haul journeys which in turn generate less carbon.

Secondly, the relatively much greater connectivity value created by hub capacity. Analysis by Frontier Economics in 2011 found that the impact on GDP of overseas customer spending from unique routes flown from Heathrow (£ per tonne of carbon emitted) was more than double that of other UK airports. More hub capacity would enable the UK to connect to valuable growth markets, particularly developing and emerging economies. In the decades ahead, the markets set to grow fastest are those that are furthest away. We need more hub capacity to have direct access to them.

Thirdly, we should consider the end to end carbon cost of a journey, including travel to and from the airport. For most UK passengers, a hub airport to the east of London would be in the wrong place. Travel times, and by association carbon, would increase for 90% of hub passengers, with their average journey time increasing by more than 30 minutes. Mode share would inevitably shift to the car, undermining all the progress made to develop Heathrow as a natural public transport hub.

Finally, we must consider the carbon value of the extensive, embedded infrastructure directly and indirectly invested in the UK's integrated transport hub, Heathrow. This investment should be compared to the carbon penalty of attempting to replace it with new infrastructure.

Return on investment. The Commission finds that “Investors will not finance them [runways] without a strong likelihood of earning a return on their investment”

We agree. The level of financing required for new hub capacity will be unprecedented. UK and international investors will not fund billions of upfront investment in UK infrastructure without a strong likelihood of earning a return on their investment.

New runway capacity is a long term investment, and consideration will need to be given to whether the current 5 year regulatory cycle provides sufficient comfort for investors against regulatory risk. We note that the recent commercial agreement with the Government on Hinkley Point C provides for a strike price that looks forward for almost 45 years (10 years of construction + 35 years of price contract), with protection against material changes in costs for uranium fuel, transmission charges, energy taxes and business rates. Although in the regulated sector the concept of the RAB provides a degree of protection to shareholders, it may still be the case that a longer term protection on the rate of return on the RAB will be required.

An attractive business case for additional hub capacity will benefit from a solution which builds on the strength of existing investment and focus of passenger demand. It is going to be hard enough to generate the funds without handicapping the project from the start with either a weak commercial location, or unrealistic expectations to fund a wholly new network of supporting infrastructure, or an existing airline customer base seeking low cost, short haul point to point infrastructure. It is most unlikely that an airport with more than 50% of slots flown by LCCs or charter operators will in fact be able to win support from their customers to pay for a new runway and associated hub infrastructure. Some airports may see it as being in their interests to win “planning permission” but in fact have no prospects of ever building.

Three areas where we would like to see greater emphasis as the Commission’s thinking continues to emerge are:

Urgency of need: Whilst we broadly support the Commission’s provisional overall conclusion that additional runway capacity is needed, we are concerned by the implied lack of urgency in the thinking that the additional runway capacity is only needed in “the coming decades”. The UK has an urgent need for more hub capacity now. There are 26 emerging market destinations with daily flights from other European hubs that are not served daily from Heathrow. The UK is cutting itself off from growth and risks businesses and their supply chains choosing to locate overseas around other increasingly better connected hubs. We could already be missing out on up to £14 billion per year in lost trade due to poor connections. This figure could rise to £26 billion a year by 2030. More importantly still, long term international investment decisions are being made now which will shape economic fortunes for decades to come. The UK needs those decisions to be informed by a clear understanding that the UK “gets it” and is open for business.

Insufficient focus on hub capacity: Heathrow, the UK’s hub, has effectively been full for a decade and consequently the UK is falling behind its competitors. A third runway at the UK’s hub is clearly needed now. In contrast, there is currently plenty of point to point capacity at other airports across the South East. A need for further capacity at any of these airports will only materialise over the longer term. We believe, therefore, that the Commission’s emerging thinking should more clearly distinguish and recognise the pressing need for more hub capacity, which is implicit in its brief, as distinct from any longer term need for additional point to point capacity which is less urgent.

Closure of Heathrow: We note that the Commission’s reference to “net additional runway capacity” reflects the arguments being advanced by those promoting certain other hub airport options that such options are only tenable with the closure of Heathrow; the acknowledgement that these options require the closure of Heathrow is in itself significant. Whilst we recognise that the Commission must, at this stage, retain an open mind on all options, we would like to stress that the implications of moving a hub airport the size of Heathrow to a site at Stansted or in the Thames Estuary are sizeable, widespread and without international precedent. It would entail an attempt to move one of the world most productive economic regions and would be likely to result in hundreds of thousands of jobs being lost across West London and the wider Thames Valley. If an option that requires the closure of Heathrow is shortlisted then we would encourage the Commission to undertake detailed analysis of the implications of this closure during stage two. It is important that the feasibility of transitioning from the existing hub to a new hub is considered and understood, not just the pros and cons of a new hub in isolation.

We look forward to the Commission's interim report in December on the nature, scale and timing of the steps needed to maintain the UK's global hub status and its recommendations for short and medium term actions to make best use of existing runway capacity.

Yours faithfully,

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

Colin Matthews
Chief Executive Officer