BRITISH AIRWAYS

British Airways response to the Airports Commission Public Consultation on new runway capacity in the South East

[Redacted version]

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Submitted by email to airports.consultation@systra.com

1. British Airways

British Airways (BA), part of International Airlines Group, is one of the world's leading global premium airlines and the largest international carrier in the UK.

The carrier has its home base at London Heathrow, the world's busiest international airport. It also has a significant presence at London Gatwick and its wholly owned subsidiary BA CityFlyer is now the biggest operator at London City Airport. The airline flies to more than 170 destination in 70 countries and is a founder member of the award winning **one**world alliance.

BA employs approximately 40,000 people and has a fleet of more than 280 aircraft. The airline carries more than 40 million customers a year.

In 2010, BA completed its merger with Iberia of Spain to create the International Airlines Group (IAG). In April 2012 IAG completed its purchase of British Midland Limited (bmi) from Lufthansa. The bmi mainline business has been fully integrated into BA.

With the addition of Vueling in April 2013, IAG is one of the world's largest airline groups with 464 aircraft flying to 243 destinations and carrying 77.3 million passengers each year and 604 thousand tonnes of cargo. It is the third largest group in Europe and the sixth largest in the world, based on revenue and tenth largest air freight carrier based on volume.

2. Introduction

This document contains BA's response to the Airports Commission's Public Consultation on its shortlisted schemes for new runway capacity in the South East and its published assessments, released 11 November, 2014.

The objective of the Airports Commission is to maintain the UK's status as an international hub for aviation. We will comment on the overall analytical approach used, the Gatwick proposal, and both Heathrow proposals.

BA recognises that the current consultation does not directly ask for responses around general airspace policy. However, unless there is a commitment to modernise London's airspace (through the LAMP project) there is a significant risk that new runway capacity at any location in South East England will not be viable.

3. Summary of BA's position

- According to a recent report by Oxford Economics[1], the aviation sector contributes £52 billion to UK GDP, supports 961,000 jobs and pays nearly £8.7 billion in tax. Airlines registered in the UK carry 134 million passengers annually and approximately 1.1 million tonnes of freight a year. UK airlines contribute in total £10.9 billion to the economy and support 200,000 jobs.[2]

- BA supports an increase in affordable hub capacity in the South East. Both airlines and UK plc will benefit from increased connectivity, competition and resilience, securing thousands of jobs and growth. If additional capacity is either unaffordable or built in the wrong location, these benefits will not materialise.

- There is no business case for expansion at Gatwick. It is unlikely to deliver a material increase in UK connectivity to the most important long-haul markets. The estimated 100% increase in airline charges will reduce the ability of airlines at Gatwick, including BA, to compete effectively.

- The Commission identifies a stronger economic case for expansion at Heathrow. BA agrees with this view and believes that Heathrow is the right place for increased hub capacity. However, the assessed schemes do not, in their current form, provide a viable business case.

- Of the two shortlisted proposals for Heathrow, BA cannot support the Heathrow Hub proposal due to a number of significant issues and risks. It fails to deliver an appropriate level of resilience; it does not enable noise respite for local communities; there are concerns over the viability of the design which could significantly impact arrival and departure flows and reduce capacity; the proposed rail hub at Iver will add unnecessary complexity to the passenger journey.

- The HAL proposal for a third runway at Heathrow delivers hub capacity, but £18.6bn is an unprecedented cost for an airport expansion. In HAL's current proposal, the construction of the new runway itself is only 1% of the total cost[3].

- Heathrow is already the most expensive hub of its type in the world[4], with passenger charges far in excess of peer group hubs. BA's forecast bill to operate at Heathrow in 2015 is ✂ . This reflects the maximum allowable charge of £20 per passenger. The Commission estimates that these charges would rise by a further 60% to fund the new capacity. BA will not be able to absorb these increases without jeopardising the future of the hub. If the cost is passed on to

[1] Oxford Economics, Economic Benefits from Air Transport in the UK, November 2014, p4
[2] Ibid, p10
[3] Pwc for Airports Commission 13. Cost and Commercial Viability: Funding and Financing, Nov 2014, Figure 23: Scheme Capex Breakdown.
[4] Airports Commission, 13. Cost and Commercial Viability: Funding and Financing, Chart 49, p68, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/372807/funding-and-financing.pdf

passengers, then the Commission's demand forecasts will be at risk as the market will choose cheaper alternatives.

- Any expansion at Heathrow must seek to provide a level playing field for incumbents as well as new entrants. Under current slot guidelines, BA could be paying for 50% of the cost of the scheme, but only receiving 25% of the new capacity. It is also uncertain what priority would be given to long-standing requests for timing improvements.

- Failure to remove Air Passenger Duty (APD), which is the highest aviation tax in the world, and reform the current UK Visa regime which stifles growth, will create a barrier to the utilisation of the additional capacity. If a record increase in airport charges is added to the effect of APD and Visas, then this scheme risks becoming a white elephant as airlines and customers seek cheaper alternatives.

- Any additional runway capacity should be paid for by the beneficiary. If the beneficiary is the airport, airlines should not be required to pay for it.

- Better UK connectivity to high growth Asian economies depends on early morning arrivals, which are critical to the operation of the hub. BA has invested over £18bn[5] in newer, quieter more efficient aircraft, and operational procedures, which further reduce environmental impact and noise. Any retiming of early morning arrivals into the day will reduce critical UK connectivity to emerging markets and put the country at a competitive disadvantage compared to other European economies. It will also cancel the opportunity to add new flights thus reducing the economic benefits of the scheme.

[5] List price value of BA new generation types in service or on order as at January 2015.

4. There is no business case for developing Gatwick:

BA does not believe that an expansion of Gatwick will deliver the benefits to UK connectivity that the Commission is tasked with delivering.

4.1 BA's business model at Gatwick:

BA operates around 17% of Gatwick's flights. Its strategy is to offer competitive point-to-point long-haul services and a short-haul operation. The profitability of this operation is very sensitive to changes in cost and will be significantly impacted by the c.100% increases in airline charges forecast by the Commission[6].

BA has worked hard to reduce controllable costs across our whole operation, and at Gatwick this includes a headcount reduction of 500, the outsourcing of ramp activities and improved aircraft utilisation to eleven hours per day. The doubling of airport charges if Gatwick expands will undermine BA's competitive position at Gatwick relative to other London airports.

BA does not intend to operate a "dual hub" at Gatwick, nor do we think that any other carrier is likely to relocate operations there. Any growth undertaken by BA will be as a result of organic demand growth in the London point to point leisure market.

BA previously attempted to operate dual hubs at Heathrow and Gatwick, and this strategy did not succeed for a number of reasons:

- Restricted size of Gatwick passenger catchment and overlap with Heathrow
- Lack of adequate connecting feed at Gatwick without expensive duplication of short-haul routes
- Key short-haul business routes require high frequency, which can best be delivered from one base
- Cost inefficiencies due to the need for dual organisations

4.2 Other sources of demand for capacity at Gatwick are uncertain

4.2.1 Carriers are unlikely to relocate from Heathrow

It is unlikely that other carriers will move flights from Heathrow if additional Gatwick capacity became available for a number of reasons:

- Gatwick user charges would rise to a level comparable to Heathrow today.
- They would lose connecting feed at Heathrow, both from alliance partners and on an interline basis from carriers including BA.
- The major airline alliances are all based at Heathrow – no alliance will want to put themselves at a disadvantage compared to those remaining at Heathrow. This applies equally to airlines that are mainly carrying point to point traffic, as well as those more dependent on transfers.
- Individual carriers with competitors at Heathrow won't want to be the first to move to Gatwick.
- Some point to point leisure based routes would be the strongest candidates to move, but there aren't large numbers of those at Heathrow.

[6] Airports Commission, Gatwick Airport Second Runway: Business Case and Sustainability Assessment, Table 3.6, p69 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/374662/evidence-base-gatwick-airport-second-runway.pdf

4.2.2 The low-cost long-haul model is, as yet, unproven

As noted by the Commission in the Interim Report[7], unit cost advantages are lower on long-haul versus network carriers. Several of the most significant cost items are non-controllable costs, including fuel, navigational charges and airport fees.

They will also be unable to take advantage of premium demand and connecting feed, which would support larger, lower unit cost aircraft, especially beyond the thickest point to point routes.

4.2.3 The "low cost gateway" scenario is also unproven

The "low-cost gateway" scenario put forward by the Commission, which assumes the growth of transfers between low-cost long-haul and short-haul carriers is, again, unproven – short-haul carriers typically operate at high seat factors, and therefore do not have significant spare capacity for low-yield connecting traffic. The Commission has previously noted that only one in twenty of easyJet's passengers in Gatwick transfer to other flights[8].

4.2.4 Short-haul growth will be undermined by the increase in charges

Further organic growth of short-haul flying, which has underpinned Gatwick's recent growth, will be put at risk by the increase in charges, making alternative bases more attractive for these highly mobile businesses.

4.3 Demand risks are therefore high:

Given the above points, it is clear there are significant risks around the demand forecasts put forward by GAL and the Commission for Gatwick. There is also plenty of evidence in previous cases that passenger forecasts have been overly optimistic – Manchester Airport's second runway is significantly underutilised and passenger figures much lower than projected[9]: 30mppa were predicted by 2005, yet there were only c22mppa in 2014[10]. Stansted has capacity for 35mppa[11] but is still nowhere near this figure, with just over 19mppa in 2014[12].

Airlines follow passenger demand, not vice versa. Gatwick is primarily a short-haul leisure airport which has struggled to grow the number of long-haul destinations since BA scaled back its previous base operation there, as shown in the graph below[13]. The recently announced move of Vietnam Airlines to Heathrow from Gatwick reinforces this point. At the time of writing we are not aware of any airline that has come out in support of more capacity at Gatwick.

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[7] Airports Commission, Interim Report, p37, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/271231/airports-commission-interim-report.pdf

[8] Airports Commission, Discussion Paper 04: Airport Operational Models, p20, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200238/discussion-paper-04.pdf

[9] Argument presented for 1994 Planning Application stated that MAN then handled 15million annual pax, predicted to rise to 22m by 2000 (planned runway opening) and 30m by 2005 – in 2005 actual annual pax figure was 19m and MAN has only now achieved 22m annual pax in rolling year to Nov 2014. *Source: Parliamentary Report SN/BT/101; OAG*

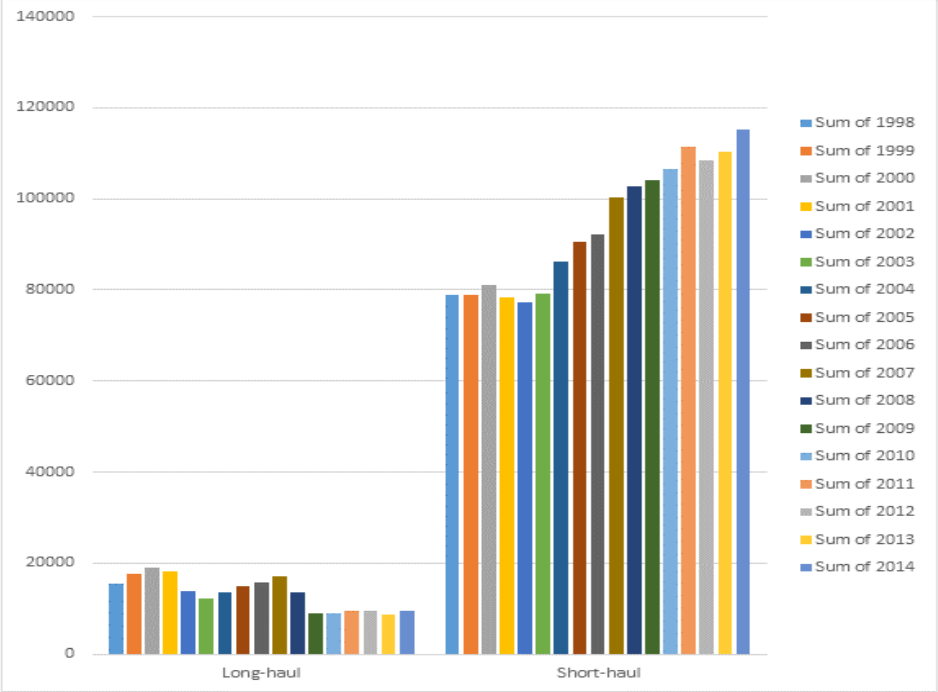
[10] http://www.manchestereveningnews.co.uk/business/manchester-airport-edges-nearer-22m-8436550

[11] http://www.stanstedairport.com/about-us/media-centre/press-releases/green-light-for-next-phase-of-growth-at-stansted

[12] Civil Aviation Authority, Size of Reporting Airports November 2013 – October 2014, http://www.caa.co.uk/docs/80/airport_data/201410/Table_01_Size_of_UK_Airports.pdf

[13] OAG Analytics/BA analysis

Chart: Long-haul and Short-haul annual frequencies from Gatwick 1998-2014 (source: OAG)



4.4 If demand falls short, user charges will rise further:

Demand risk will result in financing risk and higher cost of capital. If airline demand does not materialise for the additional capacity, user charges will increase further as costs will have to be spread across fewer passengers, further impacting on demand and potentially entering a spiral of decline. BA therefore disagrees with the Commission's insistence on bringing forward capex, as a balance must be met between passenger experience and excessive costs which may well undermine the whole airport's attractiveness, not just expansion plans.

At Stansted, user charges spiked by 70% under previous expansion plans, losing many carriers including BA and Ryanair to other London airports. Airlines at Stansted are still paying for these unrealised plans as costs associated with seeking planning permission were permitted to be added to the RAB. To avoid such a scenario in future, we urge any such costs not to be passed on to airlines in the event that planning permission is rejected or later reversed.

4.5 Gatwick expansion provides weak UK connectivity improvements

Gatwick best supports leisure flying, predominantly short-haul, not long-haul or business traffic. The Commission's baseline data shows that 85% of surveyed passengers at Gatwick in 2011 were travelling for leisure purposes and 81% of passengers were on short-haul flights. Without long-haul growth the UK is not connected to important emerging and established markets:

- There will be limited long-haul flying at Gatwick – potential only for expansion of the thickest leisure point to point routes, such as Florida, and the high-risk unproven low-cost long-haul business model.

- Long-haul at Heathrow will start to serve fewer, thicker routes as less profitable routes are squeezed out.
- Insufficient infrastructure to cope with transfers in GAL's plans, further limiting any network carrier growth – remedying this would further increase costs for point to point carriers.

BA frequently hears from customers in UK regions who advocate the importance of regular air services to London (frequency provided at a hub airport provides customer choice and a desirable business schedule vs. short-haul point to point services) and onwards to connect to international destinations for business and leisure. Over 40% of passengers on BA's Heathrow domestic services are transferring to an international flight, and we have a high number of frequent flyers and corporate customers based in UK regions.

Gatwick expansion would not be of great benefit to those in UK regions as a hub airport is necessary in order to have a good domestic network:

- There has been support from regional airports and business communities for Heathrow expansion[14] which has not been in evidence for Gatwick (bar Edinburgh Airport who are also owned by Global Infrastructure Partners).
- UK regional connectivity to beyond points would not be improved with a runway at Gatwick because there is a far greater choice of long-haul destinations at Heathrow. New Gatwick long-haul routes are likely to duplicate existing Heathrow destinations.
- Conversely, the hub model better fills domestic flights due to a better connections schedule so Gatwick will not provide more domestic routes than Heathrow expansion.
- There is a danger that increased long-haul leisure flying at Gatwick will limit the growth of similar routes from the UK regions.

4.6 Competition benefits are overstated:

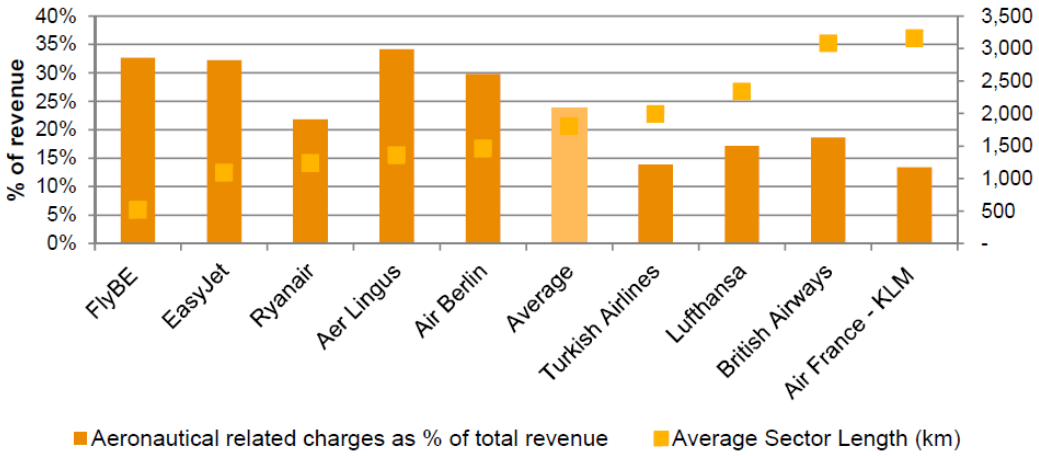
We believe that the competition benefits provided by the expansion at Gatwick have been overstated:

- Higher charges will mean that Gatwick airlines will be less able to effectively compete with Heathrow carriers than now. The majority of capacity at Gatwick is operated by short-haul airlines. For these airlines, airport charges form a relatively high percentage of their costs, as can be seen in the graph below[15]. Doubling the cost for these airlines will act as a disincentive to growth, given the other, cheaper options available at other London airports.

[14] The Telegraph, 'Heathrow Expansion Right Choice for Whole of UK', Dec 2014, http://www.telegraph.co.uk/finance/newsbysector/transport/11263751/Heathrow-expansion-right-choice-for-whole-of-UK.html

[15] Airports Commission, 13. Cost and Commercial Viability: Funding and Financing, Chart 51, p70, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/372807/funding-and-financing.pdf

Chart 51 - Aeronautical related charges as a proportion of total seat revenue and average sector length



Source: Airline annual reports, airline schedules

- There is already healthy competition between airlines at Heathrow. This takes several forms:
  - Competition on key point to point routes between joint-businesses e.g. BA/AA and Delta/Virgin on the North Atlantic routes
  - Competition for transfer traffic with European hub carriers, Gulf carriers and others.
  - Competition between short-haul carriers at Heathrow and those operating from other London airports.
- It should be noted that BA is required to provide fair access to its short-haul inventory to competing long-haul carriers at Heathrow.

4.7 Economic benefits are weaker:

- Local community impacts: full service carriers generate more employment per unit of capacity than short-haul carriers, for instance in cargo handling, which short-haul carriers typically do not offer. In this respect therefore, Heathrow expansion will provide more local jobs than Gatwick.

- Local economic benefits: Gatwick accepts very small quantities of air freight at present compared to Heathrow's significant operations. ✂ Even if some companies relocate to Gatwick, there is a high risk that economic multiplier effects for local businesses will not be evidenced with Gatwick expansion, as most logistics facilities will remain at Heathrow.

- Due to Gatwick's location to the south of main population centres, it is likely to be an unattractive location for logistics activities, for instance due to its reliance on the M23 and therefore vulnerability to delays.

- Wider economic impacts: the Commission recognises that long-haul flights are more valuable to the UK economy than short-haul, both in light of business travel and exports, but also for tourism where inbound average spend of visitors from outside Europe is over double that of European visitors, and UK residents travelling abroad spend £24.2bn annually within the UK, e.g. on air transport services[16]. If Gatwick growth is based on European short-haul markets, incremental benefits will be lower.

[16] Pwc Local Economy: Literature Review for Airports Commission, Nov 2014, p19-22

- BA is also concerned that expansion at Gatwick would entail problems in providing sufficient housing for the expanded workforce. In addition, there are likely to be negative impacts on the local economy surrounding Heathrow if firms move activity to Gatwick.

4.8 Surface access plans lack resilience

BA believes that the evaluated surface access improvements are insufficient and that the plans lack resilience. There is significant congestion on the Brighton Main Line, and the rail line is closed on average 7 times a year with limited contingency plans; dependency on the M23 means that there are few alternatives when the road is closed or disrupted due to accidents or roadworks.

4.9 Airspace and Operations

The expansion of Gatwick would adversely impact Heathrow's airspace and operations. NATS analysis[17] indicates that a second point merge system is likely to be required which would consume a significant swathe of airspace in an already congested system. This would undoubtedly impact upon Heathrow arrival and departure flows.

In addition, the optimum design would see arrivals to the northern runway being sequenced from the north. This would affect some of the Gatwick northerly departures on a westerly operation as traffic would have to fly back to the east before taking the northerly route. This would conflict with any aircraft arriving from the north.

4.10 Summary

There is no business case for an expansion at Gatwick and both GAL and the Commission overstate the benefits. It is unlikely to deliver a material increase in UK connectivity, particularly to the most important long-haul markets. Moreover, the 100% increase in airline charges there, as estimated by the Commission, will reduce the ability of airlines at Gatwick, including BA, to compete effectively, and will damage existing short-haul operations.

[17] Module 14: Operational Efficiency: Airspace Efficiency Report

5. The Heathrow Hub scheme has a number of serious disadvantages and therefore BA cannot support it.

In the previous section we argued that there was no business case for a new runway at Gatwick. This leaves the 2 options at Heathrow shortlisted by the Commission:

- Extended Northern runway (Heathrow Hub)
- Third North West runway (HAL)

Of the two shortlisted proposals for Heathrow, BA cannot support the Heathrow Hub proposal due to a number of significant issues and risks:

- It fails to deliver an appropriate level of resilience.
- It does not enable respite for local communities.
- There are concerns over the viability of the unique design[18], which could significantly impact arrival and departure flows and reduce capacity.
- The proposed rail hub at Iver will add unnecessary complexity to the passenger journey.

These points are discussed in greater detail below.

5.1 Resilience

- Heathrow Hub has significantly over-estimated the number of movements its scheme can deliver per hour. For example, the current estimate is 90 movements per hour during southern relief, in comparison to HAL's proposed combined 80 per hour from the dedicated landing and departure runways. Heathrow in its current form typically delivers 80 to 85 per hour, with the use of TEAM[19], which would be unavailable under the extended northern runway concept. Consequently, with an expected proportional increase in larger aircraft, we envisage 82/hr as a reasonable average movement rate due to the benefit afforded from the introduction of time based separation in 2015. Additionally, the figures stated for the Late Night and Early Respite periods are significant overestimations compared with the movements that British Airways considers to be achievable[20].
- In the Heathrow Hub proposal, the majority of aircraft will be required to depart from the northern runways as the southern will operate predominantly in mixed-mode. As there is a greater volume of southbound departures at Heathrow, which in an ideal world would depart off a dedicated southern departure runway, there will be consequent airspace inefficiency and loss of capacity
- Excess runway capacity improves resilience. The Hub proposals would mean the airport is running at close to capacity and therefore does not significantly improve on today's situation. In the event of runway closure or adverse weather, any disruption could be significantly greater than it is today.

5.2 Noise and Respite

We note that the Commission has assessed the overall noise footprint of the Hub proposal as worse than the HAL third runway proposal; the population within the 55LDEN contour would be over

[18] Module 14: Operational Efficiency Preliminary Safety Review

[19] Tactically Enhanced Arrival Measures. The ability for Air Traffic Control to approve landings on the designated departure runway to reduce forecast delays.

[20] Heathrow Hub, Heathrow Expansion: Updated Scheme Design, May 2014, Table 5.1, p94

250,000 higher in the Heathrow Hub scenario[21]. This may be in part due to the lack of noise respite inherent in the proposal.

- The proposal does not deliver respite to communities east of the airport. Under the Heathrow Hub concept, the only respite for communities under the approach to the northern runway will be through the form of aircraft being 600-800 feet higher on the approach during the northerly respite in the early morning period. While this may realise a decibel reduction, it is a step-change away from the current respite concept.
- The negative impact upon communities to the west, particularly Windsor, has been completely ignored by the Heathrow Hub proposal. Easterly landings to the new runway extension will put aircraft 600ft lower over Windsor than they currently are, and on a different part of the descent profile. Aircraft will be fully configured for landing with approach power set, thus making significantly more noise than current operations, not just simply through being lower on approach.
- All 3 runways will be required for the majority of a typical summer-schedule day to deliver the expected volume of movements. This will result in minimal respite both compared to the proposal and as appreciated today by affected communities; any requirement to provide respite will require a significant reduction in capacity.
- The concept of curved and offset approaches will not do enough to mitigate impact on communities, especially during the latter stages of an approach when aircraft must be lined up with the runway, and could lead to a reduction in efficiency. Some procedures have aircraft flying over the extended centreline of the southern runway during southern respite, thus negating the very principle of respite.
- Recent departure trials have resulted in negative feedback from communities, and we would expect extensive objections to these proposals due to the significant changes to the principle of respite.
- Lack of respite could lead to significant changes to the airport operating regime through measures such as hard closing / opening times rather than the current flexibility afforded during disruption. The lack of resilience explained earlier, which would manifest itself through a late running operation during any weather or ATC induced disruption, would cause significant impact to large volumes of customers if aircraft were denied permission to depart due to airport mandated closure.
- We note that Heathrow Hub has repeatedly stated that night flights would be unnecessary under its proposal. We assume that this is to mitigate the loss of respite for nearby communities. This proposal is unacceptable and will damage UK connectivity. The value of night flights is discussed in greater detail later.

5.3 Viability of designs

- The CAA has stated it is open minded to the design, but that the safety risk between missed approaches and departures must be resolved and fully articulated[22]. If safety risks cannot be mitigated sufficiently, dependent runway operations[23] could be required. This would lead to

[21] Airports Commission, 5. Noise: Local Assessment, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/372488/noise--local-assessment.pdf

[22] Module 14: Operational Efficiency Preliminary Safety Review

[23] ATC will be required to coordinate the sequencing of arrivals and flow of departures on the northerly runways thus placing artificial constraints on the operation; this will result in a significant reduction in operational efficiency.

significant drop in efficiency, capacity and flexibility. This CAA mitigation threat of reduced capacity is only of concern with the Heathrow Hub scheme.

- This issue would unlikely be solved until latter stages of the build process. This introduces unnecessary risk to the Heathrow Hub proposal, as it would be foolish to proceed with an option that could ultimately result in failure to deliver the promised capacity.

5.4 Rail hub

BA does not support the remote rail interchange at Iver as proposed by Heathrow Hub:

- The scheme would be prohibitively expensive and logistically difficult. The distances required to transport customers from the remote station to the airport adds complexity and reduces resilience.
- BA trialled a railway-station check-in and baggage facility at Paddington in the 1990s which was unsuccessful for these reasons.
- BA instead supports on-airport enhancements to public transport, capitalising on the investment already made by airlines to put infrastructure in place e.g. T5 station-box and turnouts. This is covered in more detail on page 20.
- The Heathrow Hub scheme is doubly wasteful in that airlines at Heathrow have already invested millions of pounds in rail infrastructure at the airport. Rather than construct a superfluous new facility, we call on the government to implement schemes to connect with existing infrastructure.
- Schemes already in the planning process e.g. Western Rail Access to Heathrow, Crossrail and Piccadilly Line upgrade will improve passenger choice in accessing the airport. Surface access improvements such as Southern Rail Access will further promote this. All of them can and should be achieved on-airport.
- Public transport which directly accesses the airport is far more likely to achieve modal shift which will notably contribute to improving local air quality improvements.

6. HAL Third Runway Proposal

In previous sections we have shown that there is no business case for an expansion at Gatwick and that the Heathrow Hub proposal has serious, insurmountable drawbacks that undermine the rationale behind the proposal. The remaining scheme on the Commission's shortlist is HAL's third runway proposal.

While Heathrow is the right location to deliver hub capacity, the proposal as it stands does not provide a sufficiently strong business case to win the full support of BA. And if BA is unable to provide hub capacity, then the benefits of expansion to the UK would be put at risk. A summary of BA's concerns is below and will be examined in more depth:

6.1 Key concerns with Heathrow third runway

- User charges are already too high and uncompetitive with comparable hubs.
- The cost of the scheme capex is unprecedented for an airport expansion of this scale, further driving user charges skywards.
- The proposed prefunding will potentially distort competition unless incumbents are compensated.
- The existing five year regulatory regime will be inappropriate for a scheme of this magnitude and timescale.
- The targets for opex efficiencies are far too weak.
- The rate of capacity increase proposed by the Commission does not reflect the realities of airline fleet financing and implies an unsustainable spike in airport capex and therefore charges.
- As a minimum, existing night flights must be maintained.

Given that the Heathrow scheme, in its current form, is not commercially viable for BA, we do not propose to comment on its detailed design. We will now consider our overall concerns in more detail.

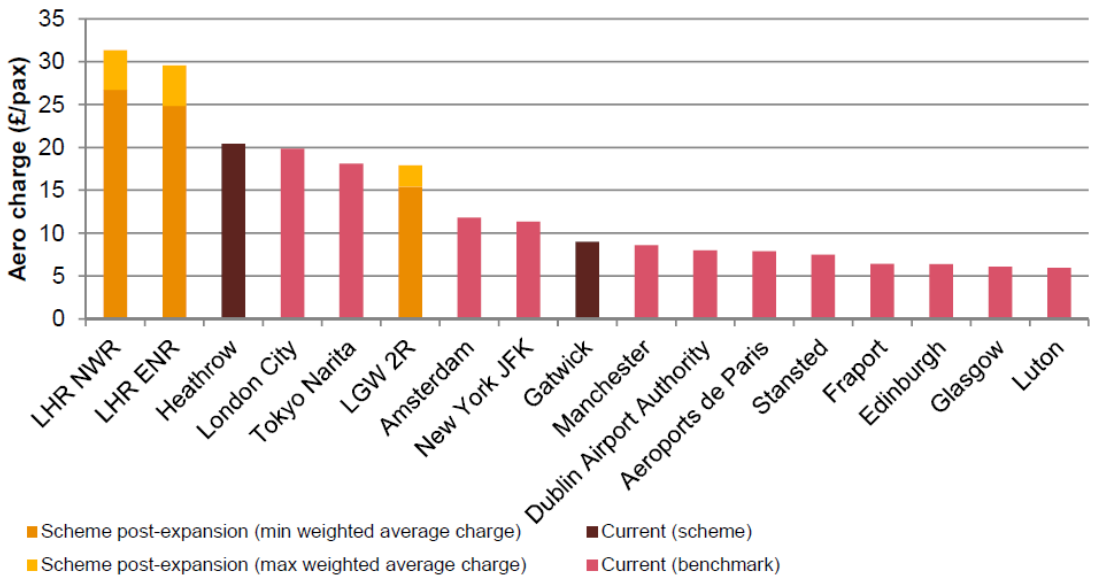
6.2 The current proposal is not affordable

6.2.1 User charges are already too high

Heathrow user charges are already far higher than peer group hubs in Europe, as shown in the Commission's own research below[24].

[24] Airports Commission, 13. Cost and Commercial Viability: Funding and Financing, Chart 49, p68, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/372807/funding-and-financing.pdf

Chart 49 – Average aero charge[24] per passenger per airport (based on most recent data available)[25]



Source: Airport annual reports (2013), Airport Statutory Accounts, Leigh Fisher UK airport Indicators 2012/13, Airports Commission estimates.

BA's forecast bill for 2015 is ✂. High user charges undermine our ability to fund new aircraft. The 50% increase forecast in charges by the Commission threatens our business model - charges are already far too high in relation to other similar airports. As a base carrier, BA is especially exposed to any hike in fees.

BA disputes the Commission and HAL's assessments that airlines are able to charge scarcity rents at Heathrow due to the cap on overall movements:

- Long-haul capacity has in fact been growing steadily at Heathrow as long-haul carriers have acquired slots from short-haul operators who have moved operations to lower cost airports, or sold their operations. As a result, long-haul passengers have been growing at an average rate of 2.6% over the last decade, despite the movement cap. Further details are contained in Appendix 1
- A high proportion of long-haul passengers at Heathrow are transferring (✂% for BA) and these passengers can choose from a wide range of alternative routings.
- For short-haul passengers, routes at Heathrow are highly competed from across other London airports and therefore prices have to be competitive.

BA has commissioned Cambridge Economic Policy Associates (CEPA) to conduct an independent review of claims made on "scarcity rents"[25] in relation to Heathrow and Gatwick airports. Although the full report is not yet available , initial results challenge the approach taken by previous research[26] [27], for instance in not considering all of the choices that customers make when selecting flights, and inconsistencies in data and assumptions.

[25] An economic theory which assumes that, in an isolated world, suppliers in constrained markets can charge higher prices.
[26] International Transport Forum, "Expanding Airport Capacity: Competition and Connectivity. The case of Gatwick and Heathrow", November 2014.
[27] Frontier Economics (2014) 'Impact of airport expansion options on competition and choice: A report prepared for Heathrow Airport,' April 2014.

We are unable to pass increased charges on to customers, as recognised in the CAA Q6 market power assessments. Therefore the levels of proposed increased charges at Heathrow pose a significant risk to the UK's hub:

The Heathrow hub cannot function without a comprehensive short-haul feeder network. BA has taken significant steps to cut controllable costs and to maximise achievable revenue on these routes, such as[28]:

- Negotiating new Heathrow customer service contracts.
- Installing additional seats equivalent to 6% additional capacity.
- Freeing up aircraft through terminal consolidation and improved scheduling.

Nevertheless, prices are highly competitive across all London airports, and the aviation business continues to operate on low margins.

The estimated increase in user charges from £20 to £32 per one-way passenger will especially impact the highly competed short-haul business, where margins are low[29]. As the majority of BA's passengers are flying short-haul, this poses a significant risk to the viability of the hub as a whole. It will not be possible for BA to increase fares to reflect the higher costs, as passengers will simply move to competing services from other London airports.

Without the ability to increase fares or absorb the cost increase due to the lack of scarcity rents, BA will be forced to reduce short-haul frequencies, cancel marginal routes and cancel plans to start potential new routes. This has negative implications for the Commission's objective to increase connectivity from the rest of the UK regions.

The consequences of a reduced short-haul network will be severe. Reduced short-haul feed lessens the ability to aggregate demand onto thin/new long-haul routes and could even lead to reduced long-haul frequencies and/or cancellations.

Higher fares will also reduce the attractiveness of Heathrow as a transfer hub compared to competing foreign hubs.

6.2.2 Rate of scheme build:

The build-up rate proposed by the Commission adds to the problem by front loading too much of the development. This puts more strain on airport charges and creates unsustainable growth rates for base carriers who will need to fund new aircraft [see also 'Capacity Release' section]. The levels of capital expenditure modelled by the Commission are well in excess of HAL's historic ability to deliver projects.

6.2.3 Cost of build

Lack of long-term land safeguarding[30] and long-term airport masterplanning has escalated the cost of scheme capex up to £18.6bn, well above similar schemes. This is a result, in part, of a failure by HAL to plan properly for the future and these costs should therefore not be borne by airlines.

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[28] IAG Capital Markets Day Presentation, slides 81-83, available at: http://www.iairgroup.com/phoenix.zhtml?c=240949&p=irol-presentations

[29] easyJet have stated an average short-haul profit margin of £8.12 per seat. http://corporate.easyjet.com/~/media/Files/E/Easyjet-Plc-V2/pdf/investors/results-centre/2014/fy-2014-transcript.pdf

[30] HAL's scheme includes a £2.49bn provision for commercial and residential property compensation.

Unlike road and rail projects in the UK, airport infrastructure is funded by the airlines themselves, along with the airport operator. The total scheme costs must be addressed – the fact that the new runway itself is only 1% of the projected costs is alarming[31]. New terminals in particular can be built more cheaply. Appendix 2 contains several examples of current airport development schemes which represent better value than the current Heathrow (and Gatwick) proposals. Terminal buildings and other significant costs such as transit systems, must not be gold-plated and a balance must be struck between excessive costs and marginal benefit to passenger experience.

For example, the current HAL proposal includes substantial capex to achieve 45minute intra-terminal and 60 minute inter-terminal minimum connecting times (MCTs) for passengers and baggage. The current airport, which is relatively compact, is only able to deliver 60 minute intra-terminal and 90 minutes between T5 and the central area. Shorter MCTs are desirable in principle, but there needs to be a careful trade-off against the substantial incremental cost given of Track Transit Systems and Baggage Tunnel construction. There is an opportunity to reduce the scope of the cross-airport transit system and build one that links the transfer volumes for the airport i.e. terminal occupancy could be geared towards grouping carriers with high connecting volumes.

Given potential changes in the airport process which have the potential to reduce terminal requirements, we question the necessity for the scale of the current designs and the capex exposed.

6.2.4 Pre-funding

The current proposal would involve incumbent carriers pre-funding the new capacity. This violates the principle that the beneficiary of new capacity should pay, and distorts competition in that new entrants would effectively be subsidised by incumbents. It is also unfair to passengers, who would be subsidising future passengers' journeys.

It would only be acceptable for pre-funding to be implemented in a manner that compensated incumbents for their contribution. ✂

6.2.5 Need for further Opex efficiencies:

The government is responsible for charges at Heathrow through the regulatory framework. The Regulator's role is to prevent overcharging by a monopoly provider. The current system is failing consumers because Heathrow remains the most expensive airport in the world.

The post-Q6 efficiency challenge, at 1%, is too low when compared with that expected by airlines. There must be a far more aggressive efficiency target set and this needs to then flow through the third runway costings. ✂. Previous Q's experience suggests that HAL has struggled in this area and thus Heathrow has higher opex costs than are required in a third runway world.

The existing excessive user charges at Heathrow are partly a consequence of HAL's inefficient operation, and BA is very concerned that HAL has not sought to take advantage of the expansion opportunity to deliver significant scale economies. This is a one-off opportunity to tackle inefficient costs which has not been addressed. BA is only prepared to pay for efficient opex costs.

6.2.6 Financing:

Airport operators have a lower cost of capital than airlines; all evidence suggests that there is no shortage of investors interested in regulated infrastructure such as airports as they are perceived as a

[31] Pwc for Airports Commission 13. Cost and Commercial Viability: Funding and Financing, Nov 2014, Figure 23: Scheme Capex Breakdown.

relatively safe and lucrative investment as a regulated asset. This means that any financing risk should not be overstated by airport operators.

Demand risk will be reduced if user charges are kept at sustainable levels to enable viable route development by airlines.

The cost of capital to airlines is significantly higher, and therefore it is vital that this scheme allows airlines to be able to finance the relevant capital for fleet and other capex.

Our own analysis shows that a five year regulatory period will be inappropriate for the timescale and size of this investment, and it is very important that the costs are spread over a longer time period in order to smooth out the charges.

6.3 Capacity roll out/Connectivity/Hub development:

The UK connectivity benefits of capacity expansion will depend on whether the right conditions are created for airlines to respond to the additional runway in a way that delivers the desired benefits. We have already highlighted above that a pre-requisite is a more affordable scheme, but there are also important policy considerations around how the capacity is released, including any changes to existing capacity.

Without a suitable policy framework there is a significant risk that extra runway capacity at Heathrow will not develop hub capacity and long-haul connectivity to benefit the UK:

✂

Additionally, for Heathrow based carriers, adequate engineering and cargo facilities are required in line with capacity increases.

6.4 Environmental impacts – general points:

BA notes that if demand cannot be met in the UK, it will be met in other parts of the air transport system, hence there would be carbon leakage and the same levels of global CO2 emissions from aviation. Considering the change in CO2 emissions from total flights for different runway options is therefore of limited value.

In general, BA's view is that the Commission's noise modelling has been robust. We note a potential anomaly in Fig 4.28 and Fig 4.30 N60 Contours P100 & 101 of Jacobs Noise Local Assessment report) in that both show an isolated "25 contour" to the north east of Heathrow due to "the possibility of applying thrust in the turn". Whilst this would be true to maintain level flight, the reality is that aircraft fly mandatory "Continuous Descent Approaches" at Heathrow, with the thrust at or near idle at this phase of flight. Thus we believe the actual noise impacts will be less than currently modelled.

6.5 Night Flights

6.5.1 Heathrow already has tight restrictions on night flights

Heathrow has a very limited quota of night movements. The Night Quota Period (NQP) applies between 2330 and 0600. Typically, in the winter season, there are 23 flights between 0430 and 0600, all of which are arrivals. 12 of these are operated by BA. In the summer season there are typically 16 arrivals, 9 of which are operated by BA. By contrast, at Frankfurt there are over 40 arrivals before 0600. To put the number of night movements at Heathrow in context, there are on average approximately 1300 total daily movements at the airport.

6.5.2 The value of existing night flights

The early morning arrivals within the NQP contribute disproportionately to the UK economy. In their 2011 report into the value of Heathrow night flights, Oxford Economics conservatively calculated the contribution as £1.2bn in GDP, supporting 18,700 jobs and contributing £197m in tax revenues[32].

✂

Night flights play an important role in connecting the UK economy with high growth markets around the world, such as those in the Far East, and their importance is only set to increase as the economic centre-of-gravity of the global economy shifts eastwards. Time zone differentials between the UK and these countries play a key role in the need for early morning arrival slots.

Additionally, the importance of night flights with regard to the 'just-in-time', high value and time sensitive airfreight services should not be underestimated. Heathrow handles over 60% of all air cargo into the UK; 93% of this being transported in the belly hold of normal passenger flights.

The combination of overnight flights and their early arrivals in Heathrow allows customers to make the best use of available time in the logistics chain. This is particularly important in the carriage of perishable products (e.g. fresh fish, flowers, meat and fruit), pharmaceutical products and express shipments (especially legal documents for the financial sector) where 'speed to market' is essential in the 'just in time' and 'convenience' world we now take for granted.

If the Night jet ban was extended, the flow of freight both to and via the UK from Hong Kong, Singapore, Sydney, Lagos, Nairobi, and Johannesburg would be particularly impacted. Also some UK originating freight would miss key same-day connections, thus increasing connection times to an unacceptable proposition. This would ultimately mean either that the freight would fly from the UK regions via continental hubs like Amsterdam, or decline when faced with an increased journey time and costs. This would particularly impact exports of fresh fish from Scotland that connect to the world via Heathrow.

We also note that the ICAO Balanced Approach states that operational restrictions should only be introduced as a last resort after other measures, such as land use planning[33].

We stand by our comments in response to previous aviation noise consultations[34].

6.5.3 New capacity does not remove need for early morning arrivals

There are compelling reasons why existing early morning arrivals should not simply be retimed into later slots in the event of new capacity:

- Any retiming of early morning arrivals into the day will cancel the opportunity to add a new flight and will not then deliver economic benefits.
- Early morning arrivals facilitate the first hub wave as many passengers transfer onto other flights. These connections would be put at risk if the arrivals were retimed later.
- Later timings would reduce the business day available for arriving passengers.

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[32] Oxford Economics (2011) The Economic Value of Night Flights at Heathrow http://www.oxfordeconomics.com/publication/open/243738

[33] ICAO Balanced Approach to Aircraft Noise Management http://www.icao.int/environmental-protection/Pages/noise.aspx

[34] BA Response to Airports Commission Discussion Paper 5: Aviation Noise (Sept 2013); BA Responses to DfT Night Flying Restrictions at Heathrow, Gatwick and Stansted Stage 1 (22 Apr 2013) and 2 (31 Jan 2014) Consultations attached

- If these flights were scheduled to arrive later in the day then this would often be accompanied by longer periods when aircraft are sitting on the ground not being flown and thereby not making a return on their costly investment.
- Re-timing these flights would mean that their inbound leg would have to become a daylight sector as there are downroute restrictions – economically viable times may not even be available. This may mean the UK loses connections to these destinations.
- More early morning arrivals are ideally needed to serve emerging economies e.g. Far East: If the night quota is to be kept at current levels, then night flights should be restricted to arrivals which require such timings as opposed to short-haul departures which are not time-sensitive. Arrivals also produce less noise than departures which is of critical importance in this sensitive period.

6.5.4 Noise impacts are reducing

A third runway will facilitate early morning arrivals landing further to the west, resulting in lower noise levels for local communities vs. no new runway. New generation aircraft are increasingly being deployed on these services, such as the A380 on BA's Singapore and Hong Kong flights. This, when combined with operational procedures, will further decrease noise levels compared to the pre-third runway period.

We are encouraged that the Commission's analysis shows night noise performance for HAL's third runway option improves for almost all metrics in both the high end and low end forecasts.

We believe that night flight noise impacts will be further reduced by new operational procedures e.g. BA has completed several proof-of-concept "2-segment" low noise approaches both at Moses Lake in the USA and at Heathrow. These indicate at least a 3dB noise improvement at the start of the approach.

In addition to the operational improvements modelled by the Airports Commission, other improvements are becoming available. BA is currently working with Airbus to use unique on-board functionality to refine the normal take-off noise profile. Computer modelling suggests at least a 6dB improvement under the departure track at a defined noise sensitive location. Simulator testing has confirmed the viability of the procedure and actual proof of concept flights are planned at Heathrow in February 2015.

6.6 Surface access:

6.6.1 General Comments

The Airports Commission states that its priorities for surface access are:

- to maximise the number of passengers and workforce accessing the airport via sustainable modes of transport
- to enable access to the airport from a wide catchment area
- to accommodate the needs of other users of transport networks, such as commuters, intercity travellers and freight.

BA supports these priorities. To the first of these we would add that surface access must cater for both time-sensitive and price-sensitive passengers. It follows that a combination of Heathrow Express, Crossrail and Underground services will be required to support an extended airport, serving both the East and West campuses

Road, rail and coach services should have direct access to the airport. Hence we do not support remote interchanges such as that advocated by Heathrow Hub Ltd, which would add unnecessary complexity to passenger journeys.

In addition, surface access must be resilient so as not to disrupt journeys; robustness must be built in with adequate alternative options in the event of disruption. This is one of the key weaknesses with the Gatwick proposal which will continue to depend heavily on one rail line and one motorway.

BA notes the wide gap between the assessments of Heathrow surface access costs carried out by the Commission (£5.7bn) and HAL (£800m), which would potentially add further to the already heavy bill to be funded by airlines and their passengers.

✂

This cumulative investment includes enabling works for Crossrail, Western Rail Access and Southern Rail Access, including turn-outs to west of Terminal 5 and a station box to enable the delivery of additional platforms if required. We support the development of schemes which will make use of this infrastructure at the airport, having already made a financial contribution to this investment.

Roads and rail infrastructure are the responsibility of Government, and Government benefits from the revenues they generate from users. For any new on-airport infrastructure, the contribution must be proportionate, respecting principles established by the CAA as the independent regulator.

6.6.2 Specific Comments

We have a number of comments on specific schemes relating to Heathrow:

- BA agrees with the Commission's assessment that there is no case for a costly HS2 spur. Given that the government has previously taken the decision not to route the main HS2 line via the airport, the link via the proposed interchange at Old Oak Common will have to serve as the link between Heathrow and HS2.

- Heathrow's freight capacity must be ready to meet the expected doubling of cargo at the airport, with an extension to the cargo main facilities footprint, sufficient expansion of surface access for freight to and from Heathrow, sufficient cargo access onto the airfield combined with contingency routes and terminal planning. To enable faster connections of time sensitive freight between flights in an enlarged campus, forward staging areas and a premium freight facility in the north-west of the campus are required. The re-routing of perimeter roads and other key access routes in HAL's plans may increase costs and make journeys around the airport longer and more complicated.

- The Heathrow Congestion Charge proposed by HAL has the potential to increase the cost and add complexity to journeys for both our customerss and employees, and should be carefully evaluated in this context.

6.7 Heathrow Airspace and Operations

- Airspace redesign through LAMP[35] is a critical pre-requisite to any new runway at either Heathrow/Gatwick; currently, LAMP does not enjoy appropriate government support due to

[35] London Airspace Management Programme. A redesign of the airspace over SE England due to complete in 2020.

the politics of airspace change. There is no point in proceeding with any new runway designs while retaining the inefficient legacy airspace.

- A Heathrow third runway presents minor concerns from an airport and airspace perspective which should not be insurmountable.
- The airports commission should review its decision not to support more flexible use of runways for resilience purposes

7. Conclusion:

There is no business case for Gatwick expansion, either for the UK or for BA. Expansion at Gatwick would result in a multi-billion pound white elephant development which would have a detrimental economic impact.

Heathrow expansion provides an opportunity to increase hub capacity and its associated strategic benefits for the UK, namely connectivity (especially to emerging markets), competition, trade, investment and tourism. The Heathrow Hub proposal has insurmountable problems relating to its design. The costs of HAL's proposal are prohibitively high and the steep rise in user charges will undermine the very benefits of expansion.

Heathrow expansion will only be viable if the funding mechanisms are addressed, if it is more affordable and capacity is released at a rate reflective of realistic fleet expansion scenarios and in line with demand growth.

As currently proposed, the benefits of airport expansion in the South East will mainly accrue to the airport operators. Airlines and their passengers will see a disproportionate rise in costs, which will constitute a significant risk to the utilisation of the new capacity and undermine the overall objective to maintain the UK's role as an aviation hub.

8. Contacts

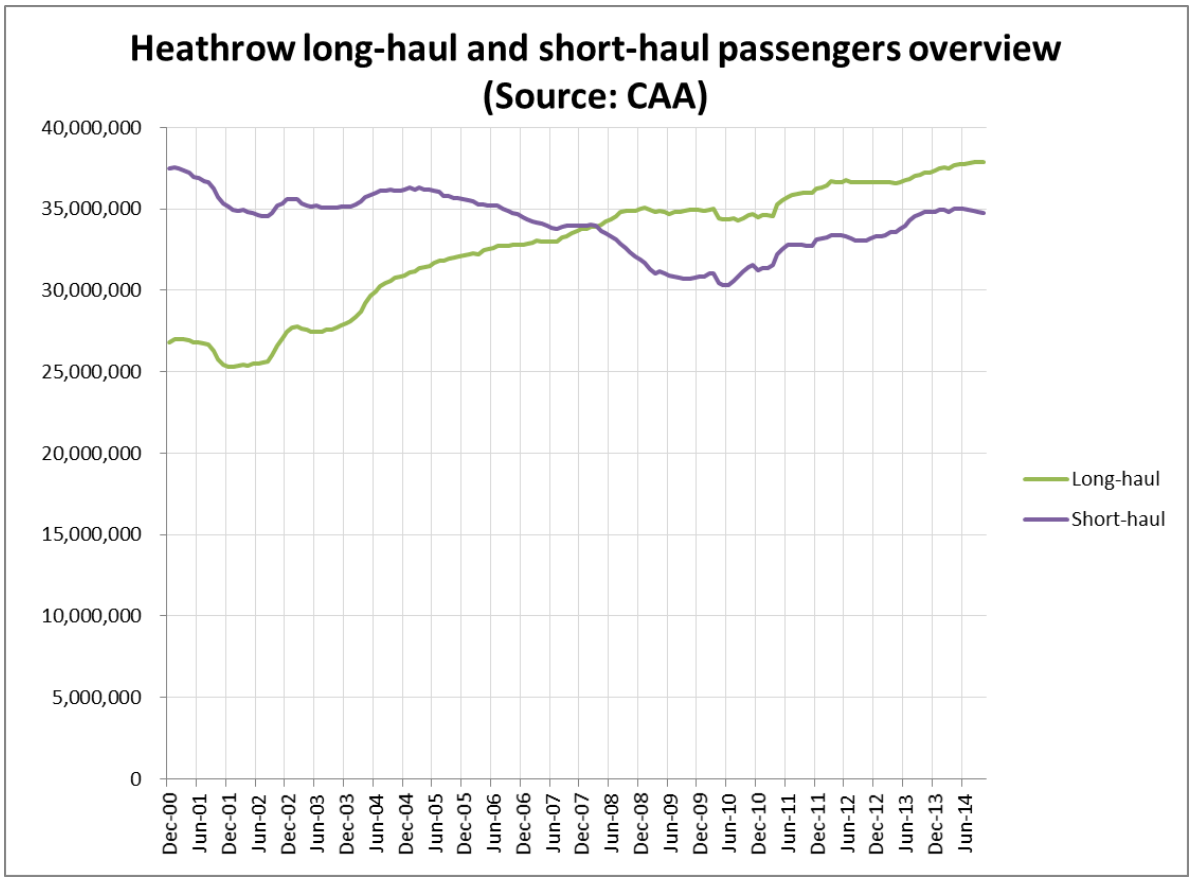
If there are any questions relating to the points raised here then please contact:

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
Waterside (HEA1)	Waterside (HEA1)	Waterside (HEA1)
PO Box 365	PO Box 365	PO Box 365
Harmondsworth	Harmondsworth	Harmondsworth
UB7 0GB	UB7 0GB	UB7 0GB
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

9. Appendices

Appendix 1 –Long-haul has continued to grow at Heathrow despite a decade of capacity constraint

This graph shows that even after 2000, when the airport could certainly be considered to be constrained on several measures, long-haul passenger volume grew at c. 2.6% p.a. (CAGR 2000 > 2013)



This historic growth rate (+2.6%) is actually in excess of the Commission's forecast for long-haul growth at Heathrow with a third runway (2030 vs 2011 CAGR per annum rate of +2.3% for 'Assessment of Need' scenario).

Appendix 2 – Comparison of airport expansion schemes

Name	Cost	Runways being built	Predicted mppa capacity	Current mppa capacity	Mppa capacity increase
Beijing New International Airport	$12.9bn	4	72	0 (not built)	72
Hong Kong	$11bn	3rd	97	70	27
Shanghai Pudong	$1.5bn	4th + 5th	80	60	20
Incheon	$4.9bn	None	62	44	22
Guangzhou	$2.1bn	3rd	75	45	30
New Navi Mumbai	$2.2bn	2	60	0 (not built)	60
Heathrow Third Runway	**$28.1bn**	**3rd**	130	90	40
Heathrow Extended Runway	**$20.3bn**	**3rd**	130	90	40
Gatwick Second Runway	**$14bn**	**2nd**	95	40	55