

Airports Commission Emerging Thinking

Response from Manchester Airports Group (M.A.G)



1 Executive Summary

- 1.1 The Commission's emerging thinking sets out provisional views on four key points:
- demand for airport capacity in the UK is likely to continue to grow in the future;
 - demand for air travel in the South East is likely to exceed the capacity of the region's existing runways;
 - demand is likely to exceed capacity even if future aviation demand is constrained to meet the Government's climate change objectives; and
 - market forces (and policy instruments) cannot be relied upon to redistribute demand away from airports in the South East to airports in other parts of the UK.
- 1.2 M.A.G agrees with these provisional views, and supports the Commission's overall conclusion that new runway infrastructure will be needed in the South East in the coming decades. This conclusion will provide a sound basis for considering options for new runway capacity in the second phase of the Commission's process.
- 1.3 The Commission's assessment of long term options will need to be based on a clear understanding of the characteristics of future demand, both in terms of market segments (business/leisure, long haul/short haul) and the geographic distribution of demand in the South East. This will be important to ensure that new capacity meets the needs of future passengers in the most cost-effective way; building costly 'hub' capacity to meet demand for point-to-point air travel would be inefficient and impose significant unnecessary costs on consumers.
- 1.4 To date, much of the public debate about the different options has focused on the economic case for expansion. From the proposals submitted to the Commission during the summer, it is clear that there is a very wide range of environmental impacts associated with new runways at different locations. In developing its final recommendations, the Commission will need to consider how it strikes an appropriate balance between the benefits and impacts of these options, and be clear about the weight that it has attached to these factors in its overall assessment.
- 1.5 However, it will be at least ten years before new runway capacity can be delivered. The value of aviation's contribution to the UK economy in the intervening period will depend on how well existing runway capacity is used, and we would encourage the Commission to carefully consider the steps needed to maximise this contribution.
- 1.6 Airports and airlines will naturally seek to make the best use of spare capacity wherever it exists. In addition, intelligent and well-timed policy interventions would stimulate the take-up of existing capacity, and provide increased choice for consumers and enhanced connectivity for the UK. These interventions include improving surface access to airports, reforming Air Passenger Duty, greater liberalisation of Air Services Agreements and promoting competition between airports.
- 1.7 In particular, implementing improvements to the quality of rail access to Stansted would strengthen competition between London airports, and enable Stansted to play a full part in

meeting demand in the period before new runway capacity can be delivered. There is also a strong case for Government to reform Air Passenger Duty (APD) to encourage the development of greater connectivity at airports with spare capacity.

- 1.8 This response provides new information which we believe to be important to the Commission's forthcoming recommendations in this area. We will also be writing separately to the Commission on the issue of air freight. This is a critically important sector to the UK economy, and we would urge the Commission to ensure its final recommendations encompass the steps required to meet the UK's future air freight needs.

2 About this response

- 2.1 This response is set out in three sections:
- our response to the Commission's emerging thinking, as set out in Sir Howard Davies's speech on 7th October 2013;
 - new information commissioned by London First on the impact of improved rail access to Stansted; and
 - new information relating to the reform of Air Passenger Duty, specifically the concept of suspending APD on new long haul routes for a defined period of time.

3 Response to the Commission's emerging thinking

- 3.1 M.A.G supports the analysis set out in the Commission's emerging thinking. We agree that additional capacity will need to be provided, within a framework for managing carbon emissions, if we are to deliver the best outcomes in environmental and connectivity terms. Doing nothing would be likely to produce a sub-optimal solution for passengers, connectivity and the economy. It is critical that the UK has a robust and flexible 'capacity plan' that can be delivered at the most appropriate time according to demand and implemented within agreed environmental constraints.
- 3.2 We would add that the need for new runway capacity does not just arise when all the currently available capacity has been fully used. Capacity should be provided ahead of this point if we are to avoid the high external costs of congestion. To maximise the economic benefits of connectivity we need to strike an appropriate balance between ensuring that new capacity is made available at times which are of most value to airlines and passengers, and the need to make full use of existing capacity.
- 3.3 The Commission's emerging thinking makes reference to the dynamic and fast moving nature of the aviation industry and the need for the Commission to take a long term view. We agree. Over the next 20 to 30 years, there are likely to be major changes in the distribution of economic activity and population around London. Of particular relevance to the Commission's work is the significant eastward shift in London's centre of gravity that is likely to occur over this timeframe. Future growth in nationally significant sectors, such as technology and medical science, is likely to be concentrated in the corridor between London and Cambridge. These important developments will drive fundamental changes in the pattern of demand across the South East.
- 3.4 We would also highlight the importance of the new ownership structure for London's airports, following the break-up of BAA by the Competition Commission (CC). This new competitive

environment will benefit passengers and airlines, and also help to drive the process of delivering new runway capacity. It is likely to be five to ten years before the potential of new ownership is fully realised and we would urge the Airports Commission to avoid making long term recommendations which are based only on the current environment or recent history.

- 3.5 One of the CC's main objectives in breaking-up BAA was to create competition in the delivery of new runway capacity. The CC considered that separate ownership would have significant benefits, from the development of Government policy through to the construction of new runways, in terms of the timeliness, design and efficiency of new capacity. For that reason, the CC recommended to Government that any future airports policy should take account of the new ownership structure and draw on the CC's conclusions on the impact of Government policy on airport competition. For that reason, the benefits of competition need to be taken into account as the Commission develops its recommendations.
- 3.6 The emerging thinking also refers to the Commission's forthcoming report on making best use of existing capacity. We are encouraged by the Commission's willingness to consider potential measures to improve surface access to airports. Good surface access is a key element in the decisions of airlines and their passengers to use a particular airport. At Stansted in particular, there is a need to make rail journey times more competitive with the other London airports and improve the reliability of the service on the West Anglia Mainline (WAML). Additional analysis published recently by London First in support of this point is outlined below in section 4.
- 3.7 The Commission's emerging thinking also contains its provisional view that Government policy interventions are unlikely to be sufficiently effective in distributing demand away from the South East to avoid the need to provide additional runway capacity. We agree that the capacity issue cannot be addressed by seeking to redistribute demand away from the South East. M.A.G does believe, however, that policy interventions would be effective in supporting less congested airports in meeting as much local demand as possible, thereby relieving some of the pressure on the busiest airports.
- 3.8 The objective in reforming Air Passenger Duty would not be to divert demand from the South East to other UK regions. Rather, we see it as a supply-side measure that would provide positive support to airlines looking to start new services. A temporary suspension of APD for new long haul services would stimulate greater connectivity at no cost to the taxpayer. That, in turn, would generate significant economic benefits elsewhere in the UK and reduce the need for unnecessary road and rail trips to London airports. Our starting point is the need to claw back passenger 'leakage' from UK regions, not to compel people living in the South to travel from Manchester or Birmingham.
- 3.9 Similarly, whilst we agree that policy interventions will not be sufficient to negate the need for additional capacity, that does not mean that they would not have significant value. If policy interventions can have a material impact in stimulating the take-up of capacity at less congested airports, then this would be a positive development. With new runway capacity unlikely to be realised in the short to medium term, promoting best use of current infrastructure in the interim period will be vital.

4 Surface access to Stansted: new data

- 4.1 M.A.G supports the recommendations of the London First study '*A World Class Rail Link for Stansted*' (appended), which puts forward a number of proposals to reduce the journey time of the Stansted Express by almost a fifth from 47 to 39 minutes, almost halve its delays and create addition capacity on the WAML to improve journeys for commuters as well as airport passengers.
- 4.2 The report suggests a route map for the delivery of improvements over the next five to seven years. We believe that these improvements, particularly the addition of a third track along a section of the route, would create an enhanced rail link that would spur competition between London's major airports and support growth in the UK's connectivity. It would also bring significant wider economic benefits, with a Net Present Value of around £1.2 billion, to businesses and residents in the Upper Lee Valley and the flourishing London-Stansted-Cambridge Corridor.
- 4.3 The swift implementation of these proposals is instrumental in making the most effective use of Stansted over the next 10 to 15 years – broadening the markets in which the airport can play a strong role. We urge the Commission to recommend to Government in its interim report a step-change improvement in the quality of rail access to Stansted; seek commitment from all interested parties to the delivery of the improvements; and call on Government and Network Rail to work with other stakeholders to develop a funding package that will enable the improvements to be delivered over the next five years.
- 4.4 Looking to the long term, we would encourage Network Rail and Transport for London to consider the potential of a Crossrail 2 link to further improve the rail service to Stansted, which in tandem with the infrastructure improvements highlighted in the study could play a role in delivering a journey time of closer to 30 minutes.

5 Air Passenger Duty: new data

- 5.1 M.A.G believes that reforming APD could have a significant impact in terms of promoting the use of existing runway capacity, by stimulating the addition of new routes from airports with spare capacity. That in turn would help reduce 'leakage' from the UK regions to Heathrow and Gatwick, reducing the need for unnecessary air and surface trips to those airports.
- 5.2 Following our response to the Airports Commission on making best use of existing capacity, M.A.G and other airports have commissioned analysis on the potential impact of suspending APD on new long haul routes from uncongested airports. A copy of this report is appended.
- 5.3 The report found that the suspension of APD – meaning that APD would be zero-rated on new long haul routes for a defined period of time – would have a significant impact in three key areas:
 - it would bring forward in time the operation of long haul routes;
 - it would boost load factors such that an airline could have greater confidence in meeting its targets for a route; and

- in cases where demand appears to be sufficient but an airline may have concerns about the average yields which could be achieved, suspending APD would boost the airline profitability of the route.

Once the route is proven and the market has grown further in the intervening period, the report concludes that it should remain viable once APD is reintroduced.

- 5.4 The report provides some case study examples of long haul routes which could be made viable more quickly, or in the case of routes which are already viable and not yet operating, examples of routes where load factors or profitability could be given a boost. These include:
- Manchester - Bangkok: notionally viable by 2015, with holiday viable by 2013;
 - Manchester - Hong Kong: notionally viable by 2021, with holiday viable by 2015;
 - Stansted - New York: notionally viable by 2016, with holiday by 2013; and
 - Stansted - Dubai: notionally viable today, load factor boost of 16%.
- 5.5 We believe that there would be considerable merit in suspending APD and we would urge the Airports Commission not to discount the idea on the basis that it believes it would have minimal impact on the distribution of demand. As the analysis demonstrates, the temporary suspension of APD would be highly effective in stimulating growth in long haul connectivity from less congested airports, an outcome that would have significant economic benefits for the UK.

6 Summary

- 6.1 In summary M.A.G welcomes the Commission's emerging thinking, particularly in terms of its main conclusions on the need for new capacity and the positive approach to improving surface access to airports.
- 6.2 In the next phase of its work, it will be important for the Commission to take a long term view, especially when considering how demand is likely to evolve and the impact of changes in the distribution of economic activity across London and the South East. The impact of airport competition will also become clear over a long timeframe, and we would urge the Commission to keep the benefits of competition in mind when considering long term options.
- 6.3 We agree with the Commission that initiatives such as APD reform will not redistribute demand or remove the need to consider new capacity. However, given the positive impact that such a policy could bring to regional economies, and the importance of stimulating the take-up of existing capacity, we would strongly argue that policy interventions have a significant role to play in the short to medium term.