Airports Commission

Public Evidence Session : Airport Operational Models 1

10 July 2013

Session 3: Welcome and Opening Remarks

Sir Howard Davies

Chair, Airports Commission

I. Preamble

Good morning, ladies and gentlemen. We are very disciplined and on time. I am Howard Davis, Chair of the Airports Commission. If I could just detain for you for a couple of minutes to explain how we will proceed this morning and also where we are in our process. If I may, I will start with that. I have four of the other five members of the Commission on the platform and the fifth one is actually running in as I speak. So from my far right, Vivienne Cox, Geoff Muirhead, Ricky Burdett, Julia King and John Armitt. As befits a rail man, John has a just-in-time philosophy.

We are tasked, as I am sure many of you know, with looking at how to maintain the UK's aviation hub status and we have been asked to do two reports: a first interim report and a second final report, which is due shortly after the next election. That will include our recommendations on longer-term options for capacity in airports in London and the South East. The interim report will do three things:

- Give a view on what we think the demand is likely to be and, against that background, what need for new capacity there is. We spent quite a bit of time of time yesterday in Manchester: we had two meetings, one on climate change and the other on demand and connectivity and the implications for economic growth.

- Look at what options there are for better use of existing runway capacity. As you will know, there have been experiments on operational freedom and that sort of thing. We will be looking at all of that and seeing what options can be put forward that would maximise use of existing capacity.

- Produce a shortlist of what we see as plausible options for additional capacity, if we deem that additional capacity will in due course be required. That shortlist will emerge from the submissions which are about to be made to us. The deadline was 19 July and we are expecting quite a number of submissions, including from people on this panel, arguing the case for additional capacity. We will sift those over the summer and the autumn, according to criteria on which we have already consulted and produce a shortlist of the options that we think plausible in December.

That is our work. In the context of that and in order to illuminate the issues we have had a series of consultation papers, published on climate change and aviation; on demand forecasting; on connectivity and the economic impact of aviation; on hub models and other models that may evolve in the future and, most recently, on noise last week. They have generated a lot of responses from the people you would expect but also from many others. We hope that they can serve to illuminate the issues that surround our work.

In addition to that we thought we would hold some public consultation meetings. We had two yesterday in Manchester and more this morning, where we will attempt to crystallise some of these issues and try to expose where the differences of emphasis lie and why people are proposing solutions to us.

We have our witnesses. We are going to have Willie Walsh from IAG/British Airways, Colin Matthews from Heathrow, and Daniel Moylan and his team from Transport for London. They will each present in a succinct way and we will then ask them some questions. Then we will open the discussion to the floor and I have already a few people who want to make statements. We really would aim for that to be people wanting to put their views on the public record. This is not a press conference. I will be around afterwards if there are any newspapers who wish to ask me questions, so this is not a press conference. This is an open forum in which we aim to get the views of interested parties. Without any further introduction, Willie, you are first up. Thank you very much for coming.

Statement 1

Willie Walsh

CEO, International Airlines Group

I. International Airlines Group

Thank you, Chairman. I will keep my comments brief. For the benefit of the audience and the Commission, I would just like to point out that International Airlines Group actually consists of six airlines: three Spanish airlines, two British airlines and one French airline. We have British Airways, the number one operator at London Heathrow and the number two operator at London Gatwick. We have BA CityFlyer, which is the number one operator at London City Airport. We have Iberia and Iberia Express, both operating out of Madrid: the number one operator at Madrid. Vueling is the number one operator at Barcelona and the number two operator at Paris Orly. We have a French airline called OpenSkies, which also operates a number of flights from Paris Orly.

II. Heathrow Third Runway

I actively campaigned and supported a third runway during the period of 2005 to 2009, following my appointment as the CEO of British Airways before the creation of the International Airlines Group. I was pleased when the then Labour government approved a third runway and was disappointed and critical of the Conservative Party in particular, who campaigned on the basis that they would cancel a third runway, primarily because I felt they provided no credible alternative to the building of a third runway. I was clearly disappointed that the government then cancelled the third runway. I do, however, accept that position and we are planning our business therefore on the basis that there will be no third runway at Heathrow. For the future, therefore, all of our business plans that involve British Airways are based on a two-runway London Heathrow.

III. Alternatives

I dismiss the idea of a new hub airport for London, principally because I do not believe it can be financed. I do not think you can present a credible business plan to support the building of a new hub airport. I am just pointing out that no taxpayers' money is used in airport development in the UK, unlike other counties. I wish regional airports well in their ambition to develop new long-haul flights; I think they will struggle to do so. I think there is an opportunity for some regional airports to develop some limited long-haul flights, but I do not believe it will be possible to develop a network of long-haul flights from regional airports, principally because long-haul travel is much more expensive and requires bigger markets than exist in most if not all of the regional airports in the UK.

IV. The Commission and Politics

Some of my comments have been interpreted as being critical of this Commission. That was not my intention and I apologise if it was read that way. However, I am critical of the politics behind these decisions. I believe the Commission will do an excellent job; I look forward to reading your reports. I suspect and believe that the report will not be acted on by politicians and therefore I have been somewhat cynical, not about the Commission's report, but the application of any ideas that you come up with.

V. The Necessity for a Hub Airport

I believe that a hub airport is critically important for the development of long-haul networks. I think short-haul point-to-point travel is adequately provided from the existing airports, including regional airports, in the UK. There are a sufficient number of carriers that are willing to provide that service. When it comes to long-haul travel, to support both the breadth and the depth of a significant long-haul network I believe you need a hub airport that can provide transfer traffic to supplement and support the originating and destination traffic at the hubs: all the traffic. Therefore I believe an efficient, good hub airport is important for the UK economy. I believe we are losing out as an economy as a result of the lack of capacity at Heathrow. I am pleased to say that following IAG's acquisition of bmi, it is our intention to expand our long-haul network using some of the slots that were previously used by bmi for short-haul flying on long-haul network development. That will principally happen after we take delivery of new aircraft, including the Boeing 787 Dreamliner, which we have just introduced into service in British Airways.

Thank you very much, Mr Chairman.

Howard Davies

Thank you very much, Willie. We are going to have all three principal witnesses first before we go to questions, so straight on to Colin.

Statement 2

Colin Matthews

CEO, Heathrow Airport

I. Preamble

Thank you Chairman. We will submit a full and evidenced written submission to you tomorrow, so I wanted to focus my few minutes this morning on what we think are the two central questions that your paper poses. Firstly, do we really need any new hub capacity at all? Secondly, if we do, do we really have to concentrate it in one place or could we spread it about?

II. Do We Need New Hub Capacity?

Starting on the first one, a hub means long-haul direct connections. This country trades 20 times more with countries with whom we have direct connections. A recent OECD report said London would have 20 more direct long-haul connections in addition to the 90 we have today if we had enough capacity. Now, that is a rather economic argument. There is good evidence; we will give you the evidence, but let me turn the debate to a slightly more down-to-earth way of putting the same argument.

Why could we not just count on airlines to do more long-haul flying from outside London from other airports across the country? They would if it was profitable. There is loads of capacity. Those airports, I am sure, would be keen to incentivise it. If you look over the last eight years, with the exception of routes to the growing super-hubs in the Gulf, there is only one long-haul route that has been put on. That is Manchester to Los Angeles. Perhaps more people are saying, though, why should we not just count on, say, Amsterdam to do it for us? What would the damage be if the transfer traffic is flowing through Amsterdam rather than through London?

From an individual passenger point of view, if the quality of the experience is similar and the timetable is similar, why would they care particularly if they are transferring through Amsterdam or through London? However, if you add up the total effect of millions of passengers making those choices, that affects where and how businesses choose to do their business. Look down the M4 corridor; look down the M3 corridor. There are amazing clusters of highly value-added businesses. Look round the M25 in the west of London. They are there because of the great connectivity to long-haul global markets that is available from London today. Why else would Holland be so happy every time we squeeze business out of Heathrow, if it was not for the fact that Holland benefits and the UK suffers when that takes place? Clearly we need new hub capacity. We are absolutely full today and it would be in the UK’s interest to have more hub capacity.

III. Does the Hub Capacity Need To Be In One Place?

That said, does it really have to be concentrated in one place? Let me just remind you what a hub does. It allows you to not only pool the demand but also to level out the peaks and troughs, which means the long-haul airlines have high load factors every single day of the year. That means they make more money flying from hubs than they do flying from point-to-point airports. If you split the hub, that will undermine the economics to the advantage of Amsterdam. That will being to send that virtuous circle into reverse, whereby more transfer traffic leads to more direct connections for people starting or ending their journey in London.

If you want to see some examples of the effect of that, look at the battle between Japan and South Korea over the last 30 or 40 years since the hub in Tokyo was split. It is now Haneda and Narita. Tokyo was the leading hub. It is now way down the league table and South Korea has eaten Tokyo's lunch in that respect. Look at the various attempts to set up second hubs in this country.

Let me make it a bit earthier, though. I think your paper asks this question. Why would the Star Alliance not move, as an entity, to another airport in the UK? Your paper points out that 25% of their traffic is transport traffic, roughly half of that coming from outside the Star Alliance. By the way, that data was prior to British Airways' acquisition of bmi. Most of that transfer is short-haul to long-haul, i.e. bmi, so those numbers will be quite different today, but let us just take them as they are. Even at that level, the effect of cutting off half of the transfer traffic would be a decisive impact on the economics of those long-haul flights. Let me give you a specific example. Air Canada to Toronto: 75% of their transfer traffic comes from outside the Star Alliance. Why ever would they move and lose that? If Air Canada would not move, why would anybody else move? By the way, there is not a single Star brain that tells airlines where to move. Each airline will make its own mind up. So put it this way: why would they move to make less money? Why would they move to hand valuable capacity to their competitors? Why would they move when they have just spent millions of pounds post-Open Skies in getting together in one place in the UK's hub airport?

By the way, Germany is not a good example of a so-called dispersed hub model. There are six airports around the world that have more than 50 long-haul destinations. Frankfurt is one of them. No country has two, by the way. Let me tell you, neither Dusseldorf, nor Munich, nor Berlin today, nor Berlin tomorrow, will be anywhere close to what Frankfurt does for Germany and indeed what we have in London here: our hub.

IV. Future of Aviation in the UK

Let me end on a positive note, though. We have an amazing opportunity in this country based on three natural strengths. One of those strengths is centuries of London and the UK being at the centre of global business. A second natural advantage is our geography: we are really well-placed to serve global trade markets. Finally, perhaps the most important: from our predecessors we have been passed an amazing legacy of strength in the UK aviation industry. Now, we have an opportunity, I think, to maintain and strengthen that, but let me just put it in to context. The airlines are consolidating; they are not multiplying. There will be fewer hubs in the future, not more. It is absolutely right that the Commission focuses on defending and making sure that we hang on to that advantage to London in the future. To do so, we need more hub capacity and we need it in a single place. Thank you.

Statement 3

Daniel Moylan

Airports adviser to the Mayor of London

I. Connectivity and Business

Thank you, Sir Howard, for letting us come today to speak on behalf of the Mayor. We agree with everything said by Colin just now. Rather than repeat it, I thought I would try to illustrate its significance for the economic prosperity of London, the South East and the country as a whole.

We have a few slides showing some global supply chains. This is, I am afraid, an anonymised slide of the business done by a very significant manufacturer in the advanced technological sector in the South West of England. You can see that they have 1,400 customers and 12 joint ventures across four customers. They have a guarantee of getting parts to those customers within 24 hours of something going wrong. They cannot do that, and they cannot grow their business, without connectivity, very often to places that would not be able to be served if there was not a hub airport and flights supported by transfer traffic.

The next one is perhaps slightly better known to you. It is the illustration of the global supply chain of something most of us have in our pockets: a mobile phone. This, in fact, is the iPhone, and you can see there are several in China. You can see where the parts are coming from. These are examples of the advanced technological manufacturing base we want to foster in this country. They are then shipped out for distribution elsewhere in the world. A global, just-in-time supply chain: small, valuable boxes travelling around the world on a just-in-time basis. This is what manufacturing depends on. Even things you might have thought were uncomplicated, like the front seat of a Nissan car, the driver's seat, has 95 different parts coming from 17 different suppliers in several different countries, including China but mostly in Europe. Some of them travel by sea, but many of them come by air. They have to be here on time and just in time in order to be assembled and to keep British factories running. Those exports and imports are crucially dependant on that connectivity.

It is sometimes said, 'If you had more capacity maybe all the airlines would do is fly to the same destinations they currently fly to, but more frequently.' That is a good comment, so we commissioned research to address that. I am going to ask my colleague Richard de Cani to explain what that research says. Then perhaps I could wrap up with a quick word at the end on another matter.

II. Different Future Scenarios

Richard de Cani, Director of Strategy and Policy, TfL

Very briefly, we wanted to get more evidence around the key outcome, which is connectivity: which of the different airport operating models would deliver the connectivity that London needs in the future to protect its economic position? We commissioned York to do some independent research drawing very heavily on existing data sets and existing methodologies used by the Department for Transport (DfT), but digging a little deeper.

The three scenarios we investigated were maximising use of existing capacity, so no more runways; development of a four-runway hub, wherever it is, so generic in terms of location at this point; and a two-by-two-by-two solution at three London airports. We drew very heavily on existing data sets using CAA data on existing origins and destinations. We drew on the DfT existing model and we made a series of assumptions that we have set out in a series of technical notes, which will be available today for the Commission and members of the public to look at.

The diagram showing the methodology is quite complicated, but the basic approach is that we have taken existing origins and destinations and we have grown that to 2050 levels using GDP factors from McKinsey and PwC sources. That would apply to existing routes that we have in London at the moment: for example, the Shanghai routes. It would apply to those direct services we do not have – for example, Jakarta – and those destinations that are relatively insignificant at the moment that will be quite significant in 2050, for example Chongqing in China. We have developed a 2050 demand forecast, which is unconstrained, and then we have allocated that to the airports under the different scenarios.

What that gives us in terms of destinations and frequencies: this column is showing the 2050 hub airport. The first column is today, which is Heathrow, in terms of the destinations and the frequencies. The second is 2050 if you maximise use: so this is Heathrow in that scenario. The third column is a two-two-two scenario, so it is Heathrow in that scenario. The final one is a four-runway hub. It is looking at the difference in the frequency of services and the number of destinations. You can see very clearly the marked difference between the two-two-two scenario and the four-runway hub in terms of the number of destinations served but also the frequency.

We have a number of things happening here. We have new services; we have more speculative services, which can happen because of the capacity; we have more frequency added to relatively low-frequency routes at the moment. We also have a thickening of those trunk routes as well. All those kind of things are happening at the same place. An interesting change there is the number of domestic services as well: so you can see the increase from seven today to 16. It is reintroducing those connections to a large number of regional destinations into that four-runway hub.

The final slide is looking at showing that in a graphical format. You can see there the difference between the various regions of the world. There is a particular increase in the dark blue around Asia and South America.

The final one is looking at the London system as a whole, so looking at what the cumulative effect is of those different operating scenarios. Again you can see that the difference you get between a two-two-two scenario and a four-runway hub is that step-change in frequency on those long-haul routes. You can see the difference from six to 14 in China, five to 13 in South America.

Daniel Moylan

It used to be said that trade follows the flag. What we are showing here is that airlines will follow economic growth, when the business passengers and the exporters and manufacturers want to get to those destinations. We think that it will lead to a genuine increase in connectivity to UK destinations and we have the evidence to support that.

III. The Capacity of a Hub

Could I make a final plea? We are discussing to some extent the concept of a hub today, but could I also ask the Commission to consider the scale of the necessary hub. It is often said that Heathrow operates at 98.5% capacity. However the figures work, it is pretty full much of the time. That has a couple of consequences. The first is an obvious one to do with resilience. If there was spare capacity built into our large hub airport then there would be greater resilience and greater capacity to manage incidents such as the snow and the recent forced landing and so forth. This is said without the slightest criticism of Heathrow management; I think they do a splendid job in very strained circumstances. They would have an easier job if they had more capacity and I think there is a national interest in having that sort of resilience, especially if you are an island nation.

The second benefit of having spare capacity is that it would allow more experimental flights. At the moment airlines put on new flights and take off flights all the time. It is that sort of experimentation that tests out new routes. Every time they do that they take a risk, but at Heathrow the risk is enhanced because to put on new flights basically they have to take off an existing flight and replace it, so that the risk and the cost of experimentation is very high. If we had more spare capacity we would certainly be able to better serve the UK regions. The fact that the UK regions are increasingly routing through foreign hubs is something that I think the Commission should take very careful account of. The new hub airport – the hub airport we look to and need in this country – needs to be a large one and it needs to have spare capacity built into it from the outset. Not to recognise that and the fact that other hub airports operate on that basis elsewhere in the world – that is, with spare capacity –would be a failure of ambition and to recognise what the country actually needs in the decades ahead. Thank you very much.

Panel Questions

Howard Davies

Thanks very much to all of you for being very succinct. My colleagues have a number of questions to ask. Let me kick off with one. A couple of weeks ago I needed to go from LHR to EVV, which as Willie knows, is Evansville, Indiana. Unaccountably, Willie, you do not offer a flight to Evansville yet, so I had to go via Atlanta on your plane. I was told that the minimum connection time at Atlanta was three and a half hours. Is it possible, Colin, for a hub to be too big?

Colin Matthews

The point about that is that you will probably have had a number of options to get there. If you are thinking about choosing one hub or another, minimum connection time is one of the key drivers. For instance, you would not choose to transfer through Shanghai and cross the river from Pudong to the other airport. I am not sure where the three and a half comes from. It might come from the immigration processes or others in the United States. The point is a short minimum connection time is a significant competitive dynamic between us and, say, Amsterdam, or us and Paris. It matters. The economics of hubs are self-reinforcing, so the bigger they get the more long-haul destinations we can serve. It is true that the bigger the airport becomes, the more walking distance you potentially have. That is why we have been investing £11 billion in the last decade at Heathrow to make sure that people can get through Heathrow more quickly, more comfortably and conveniently. The economics drive you to a bigger hub; they simply do.

Howard Davies

Thanks. Willie, you said quite bluntly that you did not think the new hub could be financed. Could you amplify that a bit?

Willie Walsh

The challenge for a new hub and anybody trying to build one is you need to clearly finance the development costs while you have no revenue stream. If you were to develop Heathrow today it would in effect be pre-financed by the airlines operation there, so there is a revenue stream to support new development.

The big challenge is translating investment in infrastructure and the cost associated with developing the airport into the operating charges. The interesting thing in the presentation we just saw is that there is no reference to how much it will cost to operate at this new, four-runway hub. It is assumed that everybody will just fly there. People will not fly to airports if they are too expensive. There are lots of airports around the world with excess capacity. Airlines choose to fly where there is demand to support it, but clearly there has to be a business model to support it as well. The challenges I would see for anybody looking at a new hub is how can you develop it and how can you finance it. How can you finance it and have operating charges that are competitive and attractive? Unless you can do that, you will not get people operating to the new hub airport.

Therefore, I think you will struggle to get a business case that will support any investment in the first place. The idea that there are friendly sovereign wealth funds out there that will just give you the money and are not looking for a return is nonsense. Anybody looking to invest will be looking for a return on that investment. Indeed, there is an argument by my friends at Heathrow that they are not getting a sufficient return on their investment, and as a result that is going to discourage foreign investment in the UK because the CAA-regulated charges will lead to a lower return in the UK than they could get elsewhere around the world.

For me it is about a business model that supports investment. I cannot see how you can create that business model. I have seen no evidence to support it. The figures I have looked at do not add up. No one who has proposed a new hub airport has been able to demonstrate through the provision of fares that it can be developed and could be attractive to airlines that operate out of it.

Howard Davies

I am going to hand over to John in a second, but just one more question from me for Willie; it seems to me you might be well-placed to answer this. Yesterday when we were discussing the climate change framework for our decisions there were two sides. Perhaps I could caricature them slightly. One side would say, ‘Look, government has a legislative commitment: whatever you do must absolutely fit into that. Other countries in Europe will not be able to take advantage of our doing that because they face the same constraints and all of that.’ On the other side, people were saying, ‘Forget it. We have a quite distinct legislative commitment. Other people have not taken this step. They are allowing further expansion. It is not operating as a constraint on them.’

You operate in and have an airline in Spain and you have an airline in France: how do you see the climate of opinion or the policy climate in relation to climate change in the other countries in which you operate?

Willie Walsh

It is fair to say that there is a much greater awareness within Europe and, I think, a genuine desire to address climate change issues. I do not believe that is a view that is shared globally. More and more people are recognising the need to do something, but it is not any common decision that would be shared right across the world.

I have always argued that the climate change issue is a global issue and needs a global response. It would be nice if the individual countries wanted to take the lead and felt that they could take the lead in demonstrating what was possible. However, I think that risks significant economic cost if the rest of the world does not follow us. I do not see any evidence in other parts of Europe – in the same way as I would see in the UK – that they are prepared to take that economic risk. That, to me, is the critical issue. If we are to address global climate change we need a global solution. Carbon dioxide is something that must be addressed but it is something that must be addressed on a global basis.

If you artificially restrict the ability to grow in this country, the risk is you will transfer the growth and skill to other parts of the world that will gladly accept it. That is the evidence that exists today. There are other hub airports who will gladly accept business that we turn away. Indeed, there are other hub airports that are today accepting business that could come to the UK. They are accepting that willingly and they have a stated ambition to continue to develop their hubs because they recognise the economic contribution that a hub airport can make, both in terms of the strength of their economy but also jobs created in their economy as well.

John Armitt

I have a point for you, Colin and Daniel. If we take Willie's analysis of the present requirements of a four-runway hub – seductive as it is by the numbers we can see on the screen – could I have your views on whether we should treat it as acceptable that in order to achieve a four-runway hub, wherever it might be, that that would entail public sector support? Is there justification for public sector support of a four-runway hub?

Colin Matthews

I do not think I am well-equipped to comment from a policy point of view. I can say that, whatever benefits flow to the industry, there is a multitude of that that flows to the economy as a whole. On that basis you would think there might be some basis for a contribution. On the other hand, in the context that we face today, I struggle to see any government willingly taking back onto the public sector borrowing requirement the need to put in loads of new infrastructure which is replacing good infrastructure available today, well-connected to where passengers want to be. I think the weighted average postcode of passengers on British Airways is somewhere close to Beaconsfield. I doubt if they are going to be thankful for having to transfer from Beaconsfield to the middle of town, across town through relatively-constrained trains, tubes and other forms of transport out to the other side. I do not think it is the only factor, but I really cannot imagine a time anytime soon when the Treasury is going to put its hands up and say, 'We want to be a serious investor as a government in airport infrastructure' when they do not need to.

John Armitt

Did your answer there, Colin, infer the fact that a four-runway hub at Heathrow is a non-starter? You seemed to assume it was not going to be near Beaconsfield.

Colin Matthews

I notice that the chart that is still on the wall does not include an option of a three-runway Heathrow, let alone a four-runway Heathrow.

John Armitt

I guess, given the direct connection there, we can assume that three runways are going to give us something like 6,800.

Colin Matthews

I suspect it might give you a great deal nearer 9,000, actually. While I cannot show you evidence that we definitely do not need four runways, I would suggest you should be sceptical about evidence that says we definitely do. We are talking about events in 2040, 2050: do we really know what the price of carbon is going to be? Do we really know what the impact of the Gulf hubs are going to be by then? Therefore an option that gives you a possibility of stepping from two to three to four when you need to, at the right time, is inherently economically going to be far more attractive than having to take a position today that we definitely need four. I cannot prove we definitely do not, but I challenge someone to be really convinced by the data that you know what is going to happen in 2040 and know that we should place that bet today.

Ross Baker, Director of Strategy, Heathrow

If I can give you an example as well, in terms of what additional capacity would be tied up with: 40 additional long-haul destinations served on a daily basis and 10 more domestic destinations served three times a day. The cumulative impact of that is 20% of the additional capacity that a third runway could generate. That is a significant addition in connectivity that would be added there.

Willie Walsh

Can I just comment? It shows 16 domestic flights. BA would not offer 16 domestic services in the UK; I cannot see how we could justify that sort of demand. Domestic flying into Heathrow is loss making; it is principally operated to support transfer traffic. A network of 16 domestic services, to my mind without doing the research, would be significantly loss making and could not be justified. It is an interesting chart, but turning an interesting chart into a reality is something completely different. I cannot identify 16 domestic destinations we would serve from Heathrow. I can think of possibly one or two that we do not currently serve that we might look at, but to be honest, I would expect there to be high-speed rail by 2050. Hopefully it would be connected into Heathrow, which would mean some of the existing domestic services that we are doing would cease by then.

Howard Davies

Schiphol have about 16.

Daniel Moylan

Schiphol have 27 UK connections. I do not know the commercial rationale for that. I am not exploring it. That is just a point I want to make.

Another point I want to briefly make is that I am glad to be able to tell Willie that by the end of next week, in response to the Commission's timetable, we will be publishing proposals that will show fully-costed business cases at affordable landing charges. That evidence will be there for Willie to examine and we believe it is credible and robust. I am not equipped to give you all the details at the moment but it is there, according to your timetable, for the end of next week.

Returning to the policy question, it is to some extent a recent accident of history that we finance some infrastructure by the use of private sector money and some infrastructure in this country by the use of public sector funds. Roads and rail happen to be in the public sector area; ports have come into the privatised area over the past 30 years, but inherently the government has a profound policy involvement with the existence of large-scale infrastructure. If the country's economy and prosperity require it, then there is a case for looking afresh at funding mechanisms and how it is achieved. We do not need to be trapped in one particular set of funding restrictions that simply exist at the moment, if the outcome is that we do not get the infrastructure the country needs for growth.

I do not know, of course, what is going to happen in 2040: we might all be flashed around the world by Mr Spock and all that stuff; I do not know. I do think that if that technology or alternative technologies were available, we would be seeing signs of the research now that would be replacing the big planes and the carbon-based technology that we expect to be flying around. We are talking about finding a solution to this problem, which – be it at Heathrow or elsewhere – is unlikely to be deliverable until the middle of the 2020s or 2030. 2040 is a mere moment beyond that, so thinking about what happens in 2040, and indeed in 2050, is an inevitable burden that the Commission has to bear. There is no reason to expect that there will be a dramatic change in technology by 2050, nor is there a reason to expect that the demand for aviation will fall, both in this country and globally in the emerging markets: the countries reaching those tipping points of income where they can fly, who we want to attract to this country for tourism and other reasons and visit their countries, for business and other reasons again. There is no reason to think that those figures are wildly wrong; I do think we need to think over that longer term and recognise the scale.

There are airlines queuing up to get into Heathrow today. It is only a slight exaggeration for me to say – and here I do disagree slightly with Colin and Ross – that if there were a third runway at Heathrow tomorrow it could be full by the afternoon. The demand for tarmac at Heathrow is very suppressed and almost insatiable. That is not simply because it is located where it is; it is because it is the closest thing we have to a functioning hub airport in this airport.

John Armitt

I suppose it comes back to this central point that we discussed yesterday. What we heard yesterday and what we have heard today is this reluctance by everyone to make what they would regard as an accurate prediction beyond 2030. I would agree with you, Daniel, that in a sense that is not much use to us, given that it is going to be the 2020s before anything can be on the ground and of use to anyone. It is the case that we do have to go beyond 2030 in our deliberations and therefore we are very reliant on the industry for its views on what is going to happen beyond 2030. Just taking one point: do we envisage there will be a greater degree as we go forward, or will it remain at the same level of this interchange between non-aligned airlines? You see hubs transferring passengers across that; is that going to increase or is it going to remain the same? Do we expect, by increasing capacity, to see that opportunity being taken up by non-aligned airlines?

Colin Matthews

You will see airlines change their alliances. They have changed their position recently. Delta is part of SkyTeam and flies into Terminal Four, where the rest do. How long did it take them to say that they wanted to co-locate with Virgin? Virgin is not part of SkyTeam; it is a part of Star. It is clearly way more important to them, economically, their 49% in Virgin, than their stake in SkyTeam. You will find airlines will move for the more important prize of anti-trust immunity across the North Atlantic or full merger when that becomes possible. What is certain is that it is a sign of consolidation among the airlines. That consolidation, together with pressure from hubs in the Gulf, will tend to mean there are likely to be fewer hubs in north-western Europe, not more. The question is: can we in the UK hang on to the extraordinary economic advantages of having one at all? We have to focus on defending what we have.

I agree the Commission will need to take a view on 2040 and 2050, but surely options that give you the chance to make the actual decision to put a shovel in the ground when you have better data is going to be more attractive than having to take a guess today about what is going to happen in 2040 or 2050. You have two options, side by side: one that gives you the opportunity to incrementally step towards that, compared to one where you have to put all of the upfront roads, rails, tunnels, you name it, bridges in. That one is going to be less attractive than a route that allows you to step to three and then, if you need to, to go for four.

Vivienne Cox

Can I pick up this technology point? Willie, in your paper you said, ‘The potential for new, efficient aircraft types to offer a step change in connectivity is limited and has been overstated.’ Could you just expand on that, and could you also consider the topic of technology more broadly? Is there anything you can see today that is actually going to make a difference in this argument?

Willie Walsh

I do not think there is anything we can see today that will significantly change the debate. There has been a lot of discussion about aircraft like the 787 Dreamliner. We have taken delivery of our first two aircraft just three years late. I think from memory about 900 787s have been ordered and somewhere around 65 or 70 have been delivered. They are producing these aircraft at a rate of 10 a month, which is about the maximum that the manufacturers can produce at an efficient economic rate. That might increase over time.

These aircraft are very efficient compared to the aircraft they will replace. In the British Airways case the first eight aircraft were designed as replacement aircraft, so they will immediately replace aircraft that are currently operating. They therefore will primarily operate on routes that are already being served. The next batch of aircraft will then be used to expand our long-haul network. The expansion that we are looking at, principally to Asia and to Latin America, will require transfer traffic. So although those aircraft are more efficient and much more efficient than the aircraft they are replacing they will still require a hub airport to support the destinations that we are looking at. The vast majority of airlines that have ordered these aircraft are traditional hub operators and are likely to use them to replace existing aircraft but to operate out of their hub airports.

We have not yet seen anybody who has taken the leap of faith and is saying that these aircraft are going to change the nature of the industry and we will be able to dismantle hubs. Do not forget that the designed range of these aircraft is about 8,000 nautical miles, so they are designed to fly long-haul. We have not yet seen anybody take a leap of faith. The list price of the 787-8 is about £205 million. That is not what people would normally pay, but that is just to give you an idea. The list price of a short-haul aircraft is about $80-90 million. They are expensive baskets. I think the issue for the airline industry is cost of capital has certainly increased. Access to capital for the airline industry is a lot more difficult today. The idea that somebody is going to buy a lot of these aircraft to try and break the existing business models in the time frame that we are talking about: I do not see it. I think it is a nice idea, but we have seen no evidence of anybody doing that. As I said, the vast majority of airlines who have ordered these aircraft appear to want them to replace existing aircraft and continue to operate their existing hub-and-spoke models that support the operation of these aircraft on the sort of network that they are likely to be used on.

Ross Baker

If I could add to Willie's point: these orders will shape the competitive landscape for the next 30-plus years. The lifetime of aircraft types of that nature is 20 to 30 years. There is a lead time on delivery. Therefore, exactly as Willie says, it plays out for that known period.

Julia King

Colin, if I could just ask you a quick question really, which is in terms of the kind of resilience you would like to have, what is your ideal capacity that you would like to be operating at?

Colin Matthews

I think it is tough to give you a number. Today on a great day we operate at 90% punctuality. On average it is about 80%. Our issue is to have fewer days that are below that because flow rates are slowed down by high winds, by fog or whatever.

Is the number 75%, which would be typical across other European airports? You have to bear in mind it has to be financed, in the end, and if we pay for 100% and put 100% of the cost burden on the shoulders of 75%-worth of passengers, that is a tough burden to carry. The equation has in total to be affordable. Imagine yourself on the credit committee of some big sovereign wealth fund that says, 'Will we invest in a certain asset?' Ultimately the money to pay you back is coming to airlines, so you ought to listen really closely to Willie, to the bosses of other airlines: are they going to pay us our money back in 30 or 40 years? How the airlines intend to use the airport is fundamental to answering this question because that is where the money comes from.

Julia King

Can I push you on that? We have heard a lot of comments that essentially you are too highly loaded at the moment. With the new technologies that you would see coming in the next 10 years or so, do you think you will get the kind of resilience at current levels or would you want to back off a bit?

Colin Matthews

Ideally you would not be at 99% or 98%; I am not sure whether it is 95% or something. There is technology that we are developing today that can make us cope better at the existing levels and we will gradually make progress in that area. We have made some progress in that area, but I do not think I can give you a scientific number. I do not think we would find it easy to make a business case that says we are going to run half empty or even three-quarters but nonetheless 99% is a bit challenging for us. Is the number 95%? I am not sure. If you offered us by some miracle some additional few percentage points of capacity today, then I think there would be a good case for using that to reduce the number of days on which there is big disruption, rather than straightaway to move ourselves back to 99%. Whether we could resist the economic advantages that airlines are going to see of flying those routes: that is another question.

Ricky Burdett

I wanted to raise an issue to all the witnesses regarding behaviour change, not necessarily amongst the people represented along the table but amongst the consumers and the users, business and leisure travel. We did hear yesterday, of course, that it is common knowledge that there has been a degree of behaviour change in terms of use of flying for business, and other forms of interaction such as teleconferencing, etc., are taking over. I would be interested to know from any of you whether you think that will affect some of the longer-term capacity needs or not. In particular we are intrigued to hear you say straight-off that UK domestic flights basically do not pay for themselves. Therefore, in the context of behaviour change and the ways that consumers, certainly in Europe, use rail rather than flying for short-haul, whether that might be a factor that we need to take into account and how seriously could that be a sort of positive contribution to the longer-term scenario.

Willie Walsh

In terms of behavioural change, there has certainly been evidence of people using trains where there is an efficient train service available. The train service to Paris, Brussels and, by extension, high-speed rail I think would make a difference. The issue at Heathrow, in terms of whether it would provide a lot of capacity, is not really, because there are not that many domestic services being operated out of Heathrow: about 4 to 5% of the current capacity at Heathrow is being used for domestic flights. If you could replace all of that with high-speed rail – and clearly that is not going to happen until probably late 2030s, 2040 – it would create some capacity, but you might argue that is the capacity that should be used for resilience. It is not going to make a big difference in the overall scheme of things in terms of additional available capacity.

Evidence of the use of video-conferencing: I use it, so I am not critical of people who do. It is not that great. The new generation tele-presence is certainly of much better quality. It is being used more by business. All the research we do is showing that it is being used more than it used to be as the quality improves. It is not impacting on the rate of growth for international travel. It has probably had a marginal effect, but it is not having a significant effect. All of the forecasts that I have looked at – and probably the most accurate, although we do disagree with each other, are the aircraft manufacturers – are still forecasting significant growth. What we are seeing in our business, particularly for business travel, is that business travel continues to grow. People are, I am sure, using video-conferencing more than they used to; I think it supplements air travel. I do not think it necessarily fully replaces it. I think the new destinations that we want to serve are destinations that require face-to-face communication. Culturally these are countries that tend to want to meet with you before they do business with you. You have to put a lot of time and effort into doing that. Maybe video-conferencing in some places can be used. It is a factor, but I do not think it is going to significantly change the growth patterns and the growth forecasts that we are seeing at the moment.

Colin Matthews

It is about long-haul, where we do not really have a substitute. In the case of short-haul, rail – if it is convenient and is there – is terrific. When it comes to long-haul, I think it would be a bold bit of government policy that tells people where to take their holiday or tells families whether they should or should not maintain face-to-face with their families scattered round the world, or tells business whether or not it matters that you have a physical handshake to close the deal or whether you can do it by text. Surely those things are risky.

The sensible thing to do is to make sure that the full cost of flying, the environmental cost and everything else, is captured in the price of the ticket. Secondly, the idea that rationing runway capacity is a good way to achieve that objective is just perversely wrong, because the consequence of runway capacity is forcing people to fly from Paris instead of from London. That is not saving any carbon; in fact, they are taking two flights instead of one and it generates congestion. Runway capacity is the last route you would surely choose if you are really after the low-carbon solution. On the contrary, you would put your best-connected hub as close as you could to the biggest centre of demand. If you asked for a global carbon solution you would have your best hub close to London because that is the biggest marketplace there is, actually on the planet, let alone in Europe. By all means make sure the pricing was right; I am not saying that necessarily that is perfect today. Let us find out policy mechanisms to do that. However, you would not use runway capacity other than to produce some very perverse consequences.

Daniel Moylan

I wonder about this idea that business travel is falling, especially if it is based on business seat occupancy. Certainly when I started my business, when I was younger and slimmer and poorer, I went all around the world in economy looking for business. There are still lots of people who do that. You see them with laptops at the back of the plane flying for a buck. Just because the business class might be less full I do not think there is any less demand for business travel, though it may be taking place in other cabins.

Can I just say on the question of trains and other substitutes, though, by looking at this in a fragmented way we are failing to understand what other countries have succeeded in seeing. What we need and should have – as they have in the Netherlands and indeed in Frankfurt – is a properly integrated transport solution. For example, you get on a train at Antwerp with a boarding pass and your bags and are checked through to your Chinese destination from Schiphol Airport: it is just like taking two flights, except one of them happens to be taken by rail. You go to Frankfurt and you drop down into a major railway station, which is connected not just to the centre of Frankfurt but to the whole European rail network. That is the sort of ambition that we ought to have in this country in environmental and economic terms.

You must not forget the manufacturing and goods side of this: all of those passenger planes are carrying goods in belly hold. That is where the economic activity is taking place: under your feet in those cabins. We must not forget, therefore, the connections with ports. We have a major new port opening up in the estuary. There is the opportunity for the Commission to think about the whole logistical basis of the British economy as part of this and – after what I think most people will admit is decades of policy failure – try to create a policy basis that recognises the crucial economic role of aviation and other connectivity and brings it together in such a way that we can actually learn the lessons from other countries and overleap them at the same time. That is the best security for us in preserving hub capacity in this country, which otherwise we already visibly see is slipping away to our competitors on the other side of the channel and indeed elsewhere.

Richard de Cani

Can I just raise a contextual point to the question around behavioural change, which is around population growth in London? London's population at the moment is just over 8 million people and is forecast to rise to 10 million by 2030 and possibly 12 million by 2050. The nature of the population is changing as well, to become more diverse with more families with a connection overseas. A substantial proportion of the demand in London in the future is therefore going to be visiting friends or relations (VFR). We need to factor that into the consideration around connectivity with the rest of the world.

I will add just a specific point on high-speed rail. There is a threshold at which people tend to choose rail over air. In Europe that is often talked about as a three-hour threshold, where people are prepared to travel by train. Manchester is well within that threshold today. Manchester is around two hours from London on Virgin Trains. What we are seeing is an increase in the air connectivity between Manchester and Heathrow, with new services added by Virgin, because of the relationship with transfer passengers. It is not necessarily just a time equation for people; it is convenience as well. High-speed rail will play a part but there is going to be a significant proportion of people who will still travel by air to the hub to connect, who are potentially within catchments by rail as well.

Howard Davies

I am turning to Geoff, but to clarify I think the numbers we are looking at on business travel are related to CAA figures on intention, not on business class.

Geoff Muirhead

Willie, I wondered whether you could tell us how your operation at Heathrow is relative to the issue of disruption that you suffer. Is resilience a big issue for you? What penalty would you happily pay to have more resilience at Heathrow? There is always a cost.

Willie Walsh

I think Heathrow's performance has significantly improved in recent years, coinciding with the arrival of Colin – so congratulations, Colin. If you look at it in the Skytrax annual report on airports, Heathrow now ranks number 10 in the world. It moved up a couple of positions from last year. Terminal Five, for the second consecutive year, was ranked as the best airport terminal in the world. I think we tend to be very critical of Heathrow here. Others who use it and are not familiar with the British press actually rate it very highly. It is something that we tend to take for granted but others do not.

Terminal Five is a fantastic airport terminal. Heathrow is a fantastic airport. It is probably the most efficient airport in the world. It is not the cheapest airport in the world, but in terms of getting the number of aircraft movements into a two-runway airport, it is very efficient. Our reputation has, I think been significantly enhanced since the opening of Terminal Five and the reputation of Heathrow globally is actually quite high.

Geoff Muirhead

So you do not see resilience as an issue?

Willie Walsh

I would like it to be more resilient. We operate to airports all around the world and we recognise the resilience issues other airports have, even where they have excess runway capacity. People talk about snow. Geneva Airport is closed probably more often than Heathrow for snow, and yet you would think that it is an airport that would be able to deal with it: it is a single runway airport and clearly prone to snow. Other airports around the world have suffered significantly from disruption. You do not tend to get as much publicity about that as you do about Heathrow.

It would be great if there were excess capacity at Heathrow. That is the reason why I would not support the use of mixed-mode for capacity purposes. Using mixed-mode for resilience purposes, to recover, I think is very important; using it to increase the capacity at Heathrow would be a huge mistake and I would not support it, because you are just going to make the resilience issues even more critical when you do not have any fall-back to be able to recover in times of disruption. Given that it is operating at probably the maximum of the runway capacity for the opening hours of the airport, there is very little more you can do to make it more resilient than it is. We just have to acknowledge that there are times when Heathrow, just like any other airport in the world, will suffer from disruption. It is not the only airport that suffers. Yes, it would be nice to have more resilience, but I would not support the idea that you scale back the use of Heathrow just to put up resilience. I think that would be a very inefficient use of the infrastructure.

Geoff Muirhead

So if we had more capacity at Heathrow, for example, you would not want it all used up for new flying?

Willie Walsh

Yes. When you go back to the proposals for a third runway, clearly a third runway would give you significant additional runway capacity. The restrictions that were going to be imposed initially I think were 480,000 movements to 525,000 with the interim use of mixed-mode to 602,000 by 2020. Then only when noise criteria could be met increasing to over 700,000 movements by, I think, 2030. I cannot remember the exact figures. It was a gradual build-up of the additional capacity, but the runway actually would give you plenty of additional capacity. Clearly if you had the runway there, which tends to be the limiting factor at Heathrow today, you would have significant additional resilience. Clearly if you have that number of movements you would need a lot more parking stands at Heathrow, which would require the development of additional terminals and parking gates, but an additional runway would give you a massive boost in terms of resilience.

Geoff Muirhead

Colin, can I ask you: are you of the view that if there were expansion at Heathrow it would not need public subsidy or any public support?

Colin Matthews

In simple terms, yes, but when a passenger's journey starts it starts at their door and it ends in their final destination. They get to Heathrow by taxi, by car, by train, by coach, whatever it is, so it depends exactly where you draw a limit around the airport. Over history not all the rail connections to Heathrow have been built using private money from aviation, obviously: the M4, the M3 and the M25 were not built in that way. Crossrail we will make a contribution, but it is not the whole sum by any means. It depends where you define the limits of the airport, frankly. Equally, if you think in terms of the cost that might be assumed to improve the noise mitigation schemes, for instance, where is the boundary between public interest and aviation interest in that? Those are relevant and interesting questions for policy makers, not for us: we are not an authority. We are a private company running an airport. It is important, I think, that the Commission and subsequent policymakers grapple with those questions, because for an airport to work efficiently we need great surface access. Historically, not all of that surface access has been paid for by aviation.

Daniel Moylan

If I could just add: TfL have done some analysis on the surface access. An increase in the order of air traffic that was mentioned by Willie – and correspondingly, one assumes, passenger numbers increase in the same order – for a third runway only and, if there was a fourth runway even more, would require very heavy investment in surface access, both rail and road. It is the most congested part of the UK motorway system already and the rail surface access is very poor by the standards of, let us say, a Schiphol or a Frankfurt that I mentioned earlier. There would be very significant public expenditure associated with that.

Geoff Muirhead

Can I ask all of you to make some observations about whether or not you believe that the UK's ability to satisfy all demand on aviation is able to be met? Are we in a constrained position or are we able, possibly, to do whatever we want to get whatever we need in aviation terms?

Daniel Moylan

Can I start on that this time? Clearly one has to set out to meet demand for any goods or service with some sense of a price, otherwise demand is absolutely unlimited. The question is: can we meet the demand at prices that are affordable for the majority of people who want to use them? Also, can we meet at a reasonable price the economic requirements of our business people, the people who come and invest in this country, who set up headquarters here, who manufacture here and who need to export and indeed import the small, valuable components that are so crucial to trade? It is not unlimited demand, I am also conscious, of course, that we need to take the limitations of climate change into account when answering a question like that, but I will just leave that to one side for the moment.

The question is: can we do it in an affordable way that meets the needs of the economy? Can we meet that level of demand? I am absolutely confident that that level of demand will be met; I have no doubt about that at all. The question is whether it is going to be met by an appropriate piece of infrastructure located in this country or one that is located elsewhere into which our airports are predominately feeders. That raises a big economic policy issue, beyond the scope of the nature of a hub airport, about where this country sits and whether, as Colin says, we are willing to lose, effectively, a very important piece of transport infrastructure that we have laid on in the past and capacity which we have laid on in the past, but which we are in danger of losing. That would have very severe consequences for this country. We are an island nation: 85% of people who arrive in and leave this country arrive by air. It is not that surprising, really, when you think about it. We are very dependent on aviation and for us to become simply a country station at the end of a branch line would have very serious consequences for the economy and serious consequences socially as well.

I think, at a price, we can meet it. It will be met. The question is: where do we want to see it met? Here or in another country?

Colin Matthews

The question is simpler if you recognise two completely different marketplaces. The marketplace for point-to-point travel is, from an airport point of view, fully supplied today. It is over-supplied today: Cardiff, Bristol, Gatwick, I think, Stansted. There is excess capacity in practically every airport. There is no shortage of capacity. There are no shortage of airlines who recently and in history have scratched their heads to put together every single profitable route on which you could possibly make money. Why would they not? That is what competitive industries do. The shortage is hub capacity, very specifically. We only have one hub airport today and it is full, as we have just discussed. There is the potential – it is not easy, I do not think, whether it is at Heathrow or anywhere else – to make an adequate provision for that. Not that emissions should be unlimited or the imposition of noise on residents should be unlimited: of course there have to be constraints around those matters. Yes, there is the potential for adequately providing the infrastructure that the economic needs of this country face.

Willie Walsh

I would agree with Colin. I think the issue is hub capacity. You do need a hub to upgrade a network of short-haul, point-to-point flights. In fact, I would argue that there is sufficient capacity available in the London airport network and indeed in the UK to fulfil any demand that exists or is likely to exist in the timescale that you are looking at. Supporting long-haul flights requires a hub airport and it is the hub capacity issue that is critical.

My interest – and I will be selfish in this one – is developing a long-haul network from Heathrow, because I believe that is a better business model for British Airways than operating point-to-point holiday flights from other airports around the UK. I am restricted in terms of what I can do because of slots at Heathrow. To fulfil the growth potential that I believe exists, I had to acquire bmi at a significant cost to provide the capacity and the ability to grow. We have bought bmi and we will, over time, use slots that bmi was using for short-haul flights for long-haul flights. That gives me the ability to grow, but it does not give my competitors the ability to grow and I am sure if they were here they would say that is not a fair position to be in. We are actively in the market to acquire slots at Heathrow when other airlines are looking to sell them. They are very expensive to acquire today. I would argue therefore that we do not have all of the capacity that is required to fulfil the demand that exists and is likely to exist for long-haul connectivity. I do not see any particular problem for short-haul.

Howard Davies

I am going to open it to the floor in a moment, but I have one question and then Ricky has one. Perhaps Colin and Willie: one point that is frequently put to us by those who are sceptical of the need for additional capacity is that you could increase the number of passengers per plane. The bid put forward by Heathrow, or BAA at the time I guess it was, assumed a larger number of passengers per plane than actually happened. There is scope for considerable additional capacity and that could be done. How do you respond to that?

Willie Walsh

We are acquiring larger aircraft. We have just taken delivery of our first Airbus A380. We have it configured with 469 seats. That compares to approximately 300 seats on the 747 that it will replace, so these are bigger aircraft. They are also very expensive aircraft: over $400 million list price for an Airbus A380. There are, I think, orders for 250 to 260 Airbus A380s globally. There are very few operators of the aircraft today. It is a very, very big aircraft that requires a lot of demand to fill.

There is an argument to support larger aircraft at Heathrow and you will see that. The A380 is a frequent visitor to Heathrow. Most of the airlines that have acquired A380s will fly to Heathrow with them; those outside of Europe certainly will. That will increase the average gauge of aircraft size at Heathrow. I think the average gauge is just over 206. Airbuses A380s, as they get added to the airline fleets, will increase that. The other end of the model is the arrival of more fuel-efficient wide-body aircraft: the 200 to 250-seat aircraft. These are marginally bigger than the aircraft they are likely to replace; not significantly bigger. You will see an increase in overall size of aircraft operating at Heathrow and that will provide additional traffic within the existing 480,000[?] movements. However, you are not going to use an A380 to start a new route to Chengdu in China. You can use an A380 on certain destinations. We have ordered 12 of them. We still could not justify ordering more than 12, because there are only a limited number of airports that could support the use of an aircraft of that size. It will make a difference, but it is not an aircraft that can be used on every long-haul destination at Heathrow that people might want to fly to.

Colin Matthews

Efficient long-haul aircraft are pretty big and so we welcome the bigger aircraft at Heathrow. The suggestion you can somehow make Heathrow into a specialised long-haul airport: the trouble with that is that in order to fill an A380 you have to take passengers from a whole range of sources; you have to take a mix. You have to have roughly two or two and a half short-haul aircraft bringing enough transfer passengers. You have to mix the holiday makers with the people visiting their families with the business people flying in the back. Therefore, every suggestion that says, ‘Could we just make Heathrow specialise in one sector?’, does not recognise that to fill a big aircraft, which we welcome, you have to get passengers from every single source, every segment, and a big one of those is transport traffic. Our average aircraft size has therefore been creeping up slowly and it will continue to creep up slowly as new A380s arrive, but every A380 needs two and a half short-haul arrivals on average in order to have the transfer traffic there to leave full. If it does not leave full it is not economical.

Ricky Burdett

Daniel, I have a question for you. I was intrigued by the Mayor of London's response. More or less there was one word that seemed to be missing and was also missing on those charts, which was 'estuary'. Little has been said about the estuary airport as a proposal. I have just one very simple question, given where you are at the table, which is if the estuary were to go ahead – one of the airport scenarios – would you close down Heathrow?

Daniel Moylan

Could I say that we are not shy about boasting about the estuary airport? We understood the response to that paper, and today's discussion was around the concept and economic basis of a hub, irrespective of location, so we avoided location perhaps even more than Colin has, to be fair. We are not the slightest bit shy about talking about the hub being in the estuary.

This is a simple question. What we agree with Colin and indeed with Willie about is that the UK needs a proper hub airport and it needs to be able to operate in a way that meets demand now and for the foreseeable future, quite a long way into the future, given lead times. We believe that means more runways. It needs to be able to operate in a way that is unconstrained by the presence or the proximity of large residential populations, because of the noise considerations that you will consider when you get responses to your next paper and because of the environmental unacceptability of that and the very large numbers involved in relation to Heathrow even today compared to other European airports, let alone an expanded Heathrow that might exist in the future. That analysis, which we share with Heathrow, on the basic need for a substantial and effective hub, drives us – who have no particular vested interest in one location or another financially speaking – to say that we ought to be looking now at a new solution. We are going to be driven to it at some stage in the future if aviation continues to grow, so why carry on investing in something on an incremental basis when you are going to have to move at some stage in any event?

If we do move, the Mayor is more flexible about exactly where it might be – and we will put in three proposals to you at the end of next week – but he has a strong bias towards the east side of the capital, both because of the availability of the land and because regeneration can arise from it. If you were to do that you would not need a large hub airport at Heathrow. As in other cities that moved their airport – nothing dramatic about this – it tends to be the case that the previous airport is redeveloped, or if aviation capacity is retained there it is on a very small, specialist basis: possibly private jets or things of that sort.

The land at Heathrow within the perimeter fence is slightly greater in area than the whole of the Royal Borough of Kensington and Chelsea, which as you probably know I am a councillor for. To state that fact is simply to state something about the development opportunities and the possibility of creating new houses, new businesses, new commercial and mixed-use districts in a city which is desperately short of housing now and is projected to be short of housing in the future. If one takes the land outside the perimeter fence, which is sterilised for aviation purposes because of landing and taking off and so forth or which is occupied by structures – sheds, warehouses and other facilities – that are essentially there because the airport is there as they are servicing the airport, you actually get up to 18,000 hectares: about 50% greater than Kensington and Chelsea. You have the possibility of a very substantial west London borough there. What do you do with it? Do you retain a small airport or do you use the whole of the site for redevelopment and housing people and giving people jobs and fixing that rent in the fabric of west London, in the fabric of the city, which sits there staring at you?

Those are policy decisions people will have to make and will have to grapple with. It is not necessary to close them now, although to some extent they feed into the financial case to because they have financial consequences. The idea to close Heathrow: I would prefer to say that what we are doing is recognising Heathrow's success and relocating it to an area where it can go on to new success. Then you are left with the question not of whether this a devastation of the west London economy – some people play up the idea of a sort of post-nuclear vision of west London, with people picking their way through the rubble scavenging for a living – but you have the most enormous opportunity in west London. That is what you should be focussing on. Both the east and the west can benefit hugely and economically and socially and in urban terms from what it is the Mayor is actually proposing. So thank you, Ricky, in what I thought would be a rather sterile debate about hubs and transfer passengers, for giving me the opportunity to mention the estuary after all.

Howard Davies

So we move Kensington and Chelsea, if I have understood you correctly.

Daniel Moylan

Kensington and Chelsea does not need to be moved, but it is often emulated.

Geoff Muirhead

I have just one final point I would like to ask about. It has been put to us several times that if you talk about transfer traffic, transfer traffic actually has no value. I can understand transfer traffic on thin routes, being that which makes a thin route viable. Yet when you have 15 flights a day to New York and a third of them are full of transfer traffic. Could you not have 10 flights without transfer traffic and have five extra planes sitting there? What is the value of transfer traffic on routes that are really well-developed and the only traffic it is going to sustain is a fairly frequent high-frequency daily?

Daniel Moylan

There would not be any planes at all in Dubai if it did not have transfer traffic, because the local population is so small. Unlike Dubai, we have a large origin and destination market in London and the South East. It is true to say that if you had no transfer traffic there would still be airplanes. The question is whether you would have the range and connectivity that you do. The Victorians understood this. With parliamentary pressure the private railway companies came together to create a huge railway hub at Clapham Junction where people get off trains and transfer onto other trains. That gives them huge journey choices, and it gave the railways an opportunity to fill their trains and make money, which nowadays is less of a consideration. It gives them huge journey choices that simply would not exist if they had created three distributed hubs in various parts of south-west London. They understood it. They got it and they made it all happen. We have a fantastic transport hub at Clapham Junction that adds huge social and transport value. We can do the same in this country with our aviation.

What I say is that it is true of course that the benefits of a large hub accrue both to the origin and destination market and to the transfer passengers, but the benefit of hosting the large hub accrues to the origin and destination party. The value to us in London of having those transfer passengers come through is that we have the extra connectivity. To them it is three hours sitting in an airport with a cup of coffee and very little added to the local economy. I will grant you that, but for us it is that connectivity point.

Frequencies: I do not know if it matters to some businesses. I know frequency matters. I know, for example, when we talk about large aircraft replacing small aircraft that I used to go on business a very great deal until about three years ago. I used to go frequently to Glasgow. I know for a fact that I would not appreciate having a large aircraft going up and down to Glasgow from Heathrow if it meant there were only two flights a day. Frequencies really matter. I do not know if the frequency difference between 10 and 16 matters for business people going to and from New York. Possibly it does not. However, there is a point at which frequency really does matter to people who want to do their business. It is not just a case of having the flight once a week. You have to have it on the times at the times that people want if they are going to be able to do their business properly. The hub airport gives those benefits to the origin and destination market that hosts it. We are benefitting from those transfer passengers.

Comments from the Floor

Howard Davies

I am going to throw it open now, because we did have one or two people who said they wanted to throw in some observations. The first I have is Darren Caplan.

Darren Caplan, Chief Executive, Airport Operators Association

We are an association that represents airports up and down the country. We believe passionately that both point-to-point airports [inaudible] point airports and sufficient [inaudible] capacity. There is a wider debate that we are obviously engaged in and we serve to try to further the interests of the sector.

Our starting position is in terms of the importance of aviation to UK plc. It is an important sector in its own right: it provides lots of jobs, a million jobs, GDP and £8 billion in Treasury revenues in terms of taxes. It also enables all the things that our panellists were talking about today in terms of tourism, exports, manufacturing, financial services, etc. That it is really coming from the piece on connectivity. Our concern is that if you look at the passenger numbers over the next 35 years, the DfT's own forecasts, and you look at the fact that connectivity could be so much better: we have not all the capacity, not just in the South East and London but in terms of the national picture. If I could just give you some figures: in terms of the passenger forecasts, they are due to double by 2050. The current figures are 220 million passengers in the UK. By 2050, using central forecasts published this year, there will be 445 million. Now, that has prompted the DfT itself to say the central forecasts suggest all the South East airports will be at capacity around 2030 and the larger airports outside the South East from about 2040. Something obviously needs to be done, and my proposal today is to say you must do something and you must get politicians to back your Commission.

The second point is to do with connectivity. It is clear that there are issues to do with connectivity. I will throw some figures out; they may help the debate. If you look at the World Economic Forum 2008-2012, since 2008 UK connectivity has declined by 4.9%. Over the same time Germany has increased by 4.3%. France has increased by 3.4%. If you look at the Oxford Economic Survey, in proportion to its size of its economy the UK ranks twelfth on air connectivity. On international hub capacity, which is the subject today, in the last 10 years the UK's capacity has increased by 4.3%, but if you look at Spain it has increased by 47%, France by 21.3%, Holland by 11% and Germany by 9.4%. Whilst we are connected as a country to places like the US, India, Hong Kong we are less connected to other BRIC countries, we are less connected to other emerging economies like Indonesia, South Korea, Turkey and Mexico. Connectivity could be much better.

We are asking the Commission three things. We have been saying this for quite a while. The first thing is look at all the options on the table, and that is one of the things that is happening today. The second thing is no slippage on your timetable. You have an interim report coming out in December, a full report in 2015. We urge very strongly and have campaigned for a long time for a process and a deadline and decisions on this that do not slip. Please stick to that timetable. A third thing we ask is for you to lobby hard for politicians and all the main political parties to commit to acting on the findings of your Commission. We are going to do all this work for the next couple years. If it gets to 2015 and we have recommendations and the politicians do not commit to acting on the findings of it, again it will not deliver on passenger numbers and on connectivity.

So the final point I will make is I gave some evidence to the Transport Select Committee last December. I was asked by someone on the Committee, 'How do you think lobbying is going? You are lobbying the government in order to get the things that you want for your sector.' I said very clearly to him that at the end of the day, we should not be lobbying you at all. You know there is a problem on passenger numbers; you know there is a problem on connectivity: you should be lobbying us as a sector to be delivering point-to-point airports and the hub capacity to lead to existing and emerging markets. I leave that with you today.

Howard Davies

Thank you very much. Is Graeme Mason here?

Graeme Mason, Planning & Corporate Affairs Director, Newcastle Airport

First of all, some of the comments I made yesterday in Manchester are relevant to this morning's debate, so if you could take them into account in all subjects that would be great.

I think there is a clear geographical pattern to the views of regions and airports on this issue linked to distance from London. Our region, the North East, and Scotland and Northern Ireland will have a different view to places further south such as the North West, the Midlands and the South West. No doubt, the Commission could draw a map and see that very clearly.

In terms of rail-journey times, Newcastle is very much on the cusp of this two-and-a-half/three-hour issue in terms of rail versus air. 65% of travellers from Newcastle are going to London by rail now and, therefore, those who are going by air are doing so for very good reasons: either, as Willie said, to connect or, reflecting some of the comments that Colin made, to get to those businesses west of London, where all of the activity is. They are, then, doing that for a good reason.

High-speed rail is not really coming north of Leeds and Manchester. We are being told that we will get the trains and we were told that we were going to get the Eurostars, and I would urge the Commission to avoid making decisions now on rail benefits that we may or may not get in 20 years' time, because it will be too late to turn the clock back.

Finally, it is something, perhaps, for the Commission to explore how the provision of additional capacity in the South East – and, as I said yesterday, we support an enlarged hub in the South East – will allow a continuation and maybe an expansion of regional air services in terms of both access and charging mechanisms.

Peter Willan, Richmond Heathrow Campaign

I speak on behalf of and as Chair of the Richmond Heathrow Campaign, which represents The Richmond Society, The Kew Society and others. We shall be submitting a package of proposals next week to the Commission, which we believe will ensure there is no need for any additional runways to 2050 and possibly beyond. These are evidence-based proposals based on a substantive amount of research over the last two years, during the course of which we have discussed many of the issues with Heathrow, the DfT, CAA, NATS and others.

In brief, we have focused on passengers rather than the usual runway debate and, in doing so, a number of options have opened up. Our proposals provide for substantial growth in passenger numbers at Heathrow and at other airports. The physical constraints are not runways, in our view, but a need for additional terminal capacity in due course and, in particular, surface transport to improve access to all five London airports in a dispersed-airport model.

Having said that our focus is on passengers, it is easier, in this brief statement, to refer to runway equivalence, assuming one runway can handle around 45 million passengers a year. The recent DfT passenger-demand forecast estimated a shortage of one runway by 2050. Our proposals reduce this unmet need and still further reduce the DfT demand forecast by the equivalent of a third runway to the CO_2 limit prescribed by the Climate Change Committee. The proposals go still further and provide for the equivalent of one spare runway in the South East, which, if necessary, can be used as an insurance policy against spill to the regional airports.

In total, we are talking about three runway equivalents. We do not believe there is the demand for additional runways. Our proposals work on both capacity and demand. We make the case that aircraft fleet loads in the DfT forecast are too conservative and are materially below the trend line over the last 25 years. The difference adds the equivalent of one runway, with terminals needing to be added in later years. Transfers have become the problem rather than the solution, and our research shows that there is significant benefit in moving, over time, to a dispersed-airport model, rather than a single-hub model. Replacing the 35 million international transfer passengers at Heathrow projected by 2050 is equivalent to nearly one runway.

Few destinations rely on transfers for viability, in our view, and to provide for 35 million international transfer passengers to solve this problem is an inefficient use of scarce resources. We heard earlier questions as to the value of international transfers to the UK economy. We have looked at all 191 destinations at Heathrow and, of those destinations with under one daily service – that means an arrival and a departure – there are only seven long-haul destinations that use international transfer passengers. Even if you look at those, there are just one or two destinations out of all Heathrow destinations that use and rely on transfer passengers. Why do we need to provide capacity for 35 million people to cover these transfer passengers? Particularly when you look at the business content and the contract-rich destinations, business content is less than 25%. That is UK businessmen going overseas, and overseas businessmen coming to the UK.

These proposals, we say, provide substantial headroom for connectivity, and just one of the measures, for example, would allow for daily flights to and from 35 destinations in China, 35 in

India, 35 in the rest of Asia, 35 in Africa and 35 in South America. This could be done tomorrow. We are suggesting a replacement of the international transfers over the next 40 years, with the huge demand in the local catchment area of the five London airports. Our proposals on the dispersed point-to-point model rebalances the use of existing capacity of the London airports. We would argue that Heathrow can still grow passenger numbers by 30%, sustain employment and improve productivity. At the same time, we have not finally decided but we are probably going to suggest that we could reduce movements by 10% at Heathrow, below the 480,000 limit.

Finally, our proposal may be the only one that is a non-runway proposal. It is certainly not a do-nothing proposal; instead, it focuses on making better use of existing resources. Thank you.

Mike Carrivick, Progressive Aviation Group

We have not heard anything about freight this morning. I believe that Heathrow is, in fact, a very pivotal freight terminus and transfer point for the UK. What damage may ensue to the UK, as well as to the airlines, by not allowing any additional hub-airport capacity?

Dale Keller, Board of Airline Representatives in the UK

In airline boardrooms around the world, many chief executives sit back and look in dismay at what is happening in the UK as a vital part of their global networks. What they feel is, 'Invest what you like in runway capacity; it is only the airlines themselves that create the networks from those pieces of tarmac.' There are choices for airlines coming to the London region right now, but where are the airlines predominantly flying on long haul? They are flying into the existing hub airport. There are very good reasons for that, as has been discussed this morning.

We did a survey of our members looking at various locations and what the airlines want. The airlines unanimously require increased capacity at the hub-airport location in the UK, wherever that may be. When we talk about where that airport may be, it has to be affordable. The international-airline community have choices of which countries and hubs they fly to. We cannot have a situation where, through funding errors, we end with, by far off the scale, the most expensive airport hub in the world.

We also cannot afford a system for the international carriers where the choice of where a hub may be in the UK is for regeneration purposes of a specific part of the city. If the airlines are paying, they want the airport to be located where it is convenient for their customers. We have looked at what happened in Montréal and in Tokyo with Narita, and I think a lot of evidence there is that you have to build the tarmac where the customers want to fly from and where the airlines can competitively create their global networks.

Alex Reid

I am personally quite persuaded of the economic need for a modern, four-runway hub airport, but I think the location is less clear. The comment I would like to offer is on what you might call the Heathrow economy, by which I do not mean just the boundary of Heathrow airport or, indeed, the wider boundary containing the buildings that service the airport, but a circle perhaps 25 miles in diameter surrounding Heathrow. It seems to me that, over the last 40 years, there has grown up in that area an extremely important part of our economy, with many British companies that trade internationally and many foreign companies that wanted a base in Europe. An important factor in their locating there has been the existence of Heathrow.

If there is a suggestion of shrinking or abolishing Heathrow and setting up a new hub in Stansted or the Estuary or wherever, it does seem to me that a very important calculation that needs to be made is what the economic damage will be to the Heathrow economy. It seems to me that, in a knowledge-based, international, global economy, the existence of the airport is as important to the Heathrow economy as the existence, shall we say, of the coalmines was to the 19th century industrial economy in the North West. If you plot that thing out, I do not know what the numbers are but it is going to do very substantial damage to that important economy, and I would urge that attempts should be made to estimate that and take that into account.

Mark Bostock, Heathrow Hub

I think the discussion has been extremely interesting, and interesting from the point of what the witnesses have said. I think some of the work that Heathrow Airports have done on the importance of Heathrow and the bigger economy is extremely relevant. I think some of the work that Daniel Moylan and his team have done on arguing for a four-runway airport has also been very important.

What is missing from this debate is the huge importance of surface access. What is missing from the debate is the whole passenger experience of getting into Heathrow, or wherever the hub is. I have looked at all these and have come to a very clear conclusion that it is Heathrow that has to be looked at. I think the interesting challenge to Colin is to come up with a solution. Do not be bound by your boundaries as they exist at the moment. Come in and debate with others the creation of an integrated transport solution.

From the point of view of the Commissioners, you have a challenge here, because Government seems to have predetermined the line for HS2. My experience and understanding of European airports is that Heathrow, to be an effective four-runway solution, requires proper access and integration of the high-speed rail connection. That is a challenge, Mr Chairman, that you have, despite the fact that it seems to me that that project may be in terminal decline at the moment. Surface access, then, and it is Heathrow that needs to be looked at as the preferred place.

I am surprised that Willie Walsh says it has to be two runways. We certainly have a solution which is very different to that and creates the capacity for resilience and for automation.

Gill Moore, Friends of the North Kent Marshes

I would like to say that we are wholly opposed to the construction of an airport anywhere in the Thames Estuary, because of the immense damage it will cause to the area’s internationally important wildlife and to the wider environment. This whole issue was exhaustively investigated in the run-up to the publication of the previous Government’s Aviation White Paper in 2003. All of the key players, including the aviation industry, contributed, and the idea of an airport in the Thames Estuary was ruled out. In addition to the unprecedented environmental damage and the resulting legal implications, the investigation found that an Estuary airport did not make economic sense, would not meet the requirements of the aviation industry, and presented a significantly higher – up to 12 times greater – risk of bird-strike that at any other major airport in the UK.

This would potentially be the biggest single piece of environmental damage and vandalism ever perpetrated in the UK. The Government would have to recreate any lost or damaged habitat elsewhere before work on an airport could start and, even then, only if they could prove that there is no alternative site for the expansion and that it is in the overriding public interest. They would face a legal battle which would last for years. Recent statements and proposals by the London Mayor, Boris Johnson, Norman Foster and others in favour of an Estuary airport do nothing to alter these findings. The threats and the risks remain the same.

An airport in the Thames Estuary is unrealistic, due to the ecological, environmental and economic impacts it would cause. An Estuary airport would destroy whole communities and adversely impact many others on both sides of the Thames Estuary. I would also like to point out that the Estuary has high winds and snow, and is three times foggier than Heathrow, and that is according to the Met Office.

Over 22,000 people live on the Hoo Peninsula. Nine villages would either be destroyed by the airport footprint, danger zones and the massive amount of new road and rail infrastructure, or become uninhabitable due to the sheer volume of low jets flying low overhead 24 hours a day, 365 days a year, with no respite. Communities in south-east London, Kent and Essex would be subjected to noise and pollution on a scale never experienced in the UK before. On both sides of the Thames Estuary, for a radius of at least 25 miles, vast swathes of countryside, more homes and businesses and the highest-grade agricultural land, which is a national resource, would be lost due to the immense amount of infrastructure-strengthening that would be needed to service a new hub airport.

People come from all over the world to visit this beautiful area. It is a hidden gem, with ruined castles, Norman churches, ancient monuments and fine listed buildings. It is also where Charles Dickens lived, wrote and walked for miles, and he used to take his house guests for walks across the Marshes. Thank you.

Councillor Colin Ellar, London Borough of Hounslow

I am Deputy Leader of the London Borough of Hounslow. It is only Heathrow that I am interested in. We are right next to Heathrow and are the borough that is most affected by Heathrow. In the discussions this morning, the options of expansion via a third runway and then perhaps an incremental fourth runway were raised. This has concerned us for decades. We were opposed and we remain opposed to a third runway on Sipson. I think we would similarly oppose the plans that come out on Stanmore of a third runway to the south, even though we have not had a full discussion on that or taken a position, because it is not something that we have even seen the detail of. We would, however, oppose either one of those options, as they would dramatically affect the quality of life of 100,000 to 200,000 people in our immediate vicinity.

If we look closely at the Policy Exchange offer, that document did offer some respite to our residents: because it was what we call ‘lift and shift’ and it takes the runways and moves them two or three miles to the west, it would have an effective lessening of the noise impact on our residents, and we would possibly see that as a benefit, even though we may see more flights. There is a balance in what you like and do not like within that. It is very difficult, until we have a definitive idea of what is on offer, to take a position, because none of these proposals have been fully worked up with all the technical dimension around them that would enable us to gather what effect it would have on our residents. We would, however, certainly oppose a third runway and an additional fourth runway if they were where we think they are going to be proposed by Heathrow Airports.

Just to pick up on Mr Moylan’s idea of building lots and lots of nice estates around Heathrow if Heathrow was ever to close and move away, we would not need to. There would be so many empty houses, because there would be 100,000 people out of work. There would be no shortage of empty houses in west London if that ever happened.

Sir Howard Davies

I am going to draw things to a close now. I apologise to Daniel for detaining him; I am not going to apologise to Colin and Willie, because I think under 10 minutes late is counted as being on time. Thanks to them, however, for coming. It is very good of you to make the time this morning, and very good of you all to come.

Session 4:

Welcome and Opening Remarks

Sir Howard Davies

Chair, Airports Commission

This is the fourth of four public evidence sessions that we have been holding for the last two days. I am going to start with a very brief introduction about where we are in the process. I recognise that a few people have heard this before, because they were here for the first session. The Commission has two tasks: to produce an interim report by the end of this year and a final report just after the election. The interim report is going to look at the demand issues and whether there is a case for additional capacity; it will also look at things that might be done to make better use of existing capacity; and will try to develop a shortlist of plausible options for the future.

In that context, we have asked people to produce their proposals by 19 July. Although, when I was at university, if I had an essay deadline of 19 July at the moment on 10 July, I would not have started, I suspect that most of the members of the team here have started and, therefore, have a fairly clear idea of what they would like to propose. That is, of course, in relation to the airports people.

What we are talking about today is airport operational models, and this drops out, if you like, of one of our consultation papers. We have issued papers on climate change and aviation, on connectivity and the economy, on noise, and on operational models. This morning, we are looking at the ways in which airports and airlines are going to operate in the future. One of the difficulties that we have is that we need to try to look forward and project, and not assume that the market in the future is going to be exactly as it has been in the past.

We hope that, in the next session, we will get some illumination of those issues. We are going to have short presentations from the four presenters; my Commissioner colleagues – Vivienne Cox, Geoff Muirhead, Ricky Burdett, Julia King and John Armitt – and I will ask a few questions; and we will leave some time at the end for people to make comments from the floor. Everybody is encouraged to be as succinct as possible.

On the witness desk we have:

- Carolyn McCall from easyJet.

- Paul Kehoe from Birmingham.
- Roy McNulty, Chairman of Gatwick.
- Paul Eden from Manchester Airports Group.

Carolyn, over to you.

Airport Operational Models: Statement 1

Carolyn McCall

Chief Executive, easyJet

I. Preamble

Good morning, everybody. I would like to thank the Commission for inviting easyJet to give evidence. We all know that aviation plays a vital role in supporting the UK economy and connecting British business and people with the rest of the world. Over the next few decades, there will be demand for new aviation capacity in the South East. Our industry needs a roadmap for that aviation capacity, and there are different views in our industry on the precise way to achieve that, but I think what we all want and what we all agree on is that we need certainty. EasyJet's main ambitions are that this is the last review and that all political parties agree to your recommendations, whatever they are.

II. Point-to-point Model

Since easyJet was founded in 1995, with a mission to provide safe, affordable and convenient flights, we have revolutionised the way in which people travel in Europe. We now carry 60 million passengers per year on some 650 routes, with a fleet of over 200 aircraft. This success has been built on a very different model to the traditional one: on a simple, efficient, point-to-point business model.

- We fly one sort of aircraft, which all our crew and all our engineers can operate on.
- Without a business class, we have more seats per aircraft. We have load factors of around 90%.
- We use our aircraft efficiently, usually taking about 25 minutes to turn them round at any airport.
- Almost all of our bookings are online.
- Lower cost means lower fares for all our passengers.
- Our planes and crew are based at 23 airports in the UK and Europe.

- We fly to and from primary airports, operating more of Europe's biggest routes than any other airline.

- Everyone at easyJet feels passionately about making travel easy and affordable for all our passengers at every step of the journey, and that is what we try to do.

EasyJet is now Britain's largest airline, carrying more passengers than BA and Virgin combined. I say this only to illustrate one of our key points; namely that the most successful aviation business model of the last decade is point-to-point. The reason for this success is because it provides passengers with what they want: direct flights to where they want to go, at a good fare and with good service. An airport like Edinburgh now has a choice of 31 destinations served by easyJet on direct flights, without the cost and inconvenience of connecting through London; for example, Edinburgh to Athens, Amsterdam, Berlin, Iceland, Madrid, Charles de Gaulle and Geneva, to name but a few. Routes which flag-carriers lost money on or would not even contemplate flying are profitable for easyJet.

III. Hub-and-spoke Model

That leads to our second point, which is that the airport infrastructure we operate in today reflects the model of 30 years ago: hub-and-spoke. When planning the infrastructure for the next 30-50 years, the Commission should reflect on this, as I know you are doing, as these trends are more likely to shape the future of aviation than the old ways of working.

Point-to-point accounts for around 90% of all passenger journeys in UK airspace. Even at Heathrow, less than 20% of passenger journeys use the airport to transfer to another flight. There has been, and probably still is, an overemphasis on the importance of the hub or focal airport, and we ask that aviation policy does not favour hubs and transfer operations over point-to-point. The economic benefits of aviation are almost entirely from passengers who begin or end their journey in the UK, including London Heathrow. There is minimal direct benefit from transfer passengers.

Of course, existing capacity should be fully utilised. In the short term, Luton and Southend could enable 10 million more passenger journeys a year, without any new runways. Without other firm proposals for us to review – we have not seen firm proposals yet – easyJet is completely open-minded about medium-to-long-term options. However, we are very clear about three things:

- That capacity should be provided where there is passenger demand for it; aviation works best when consumers determine outcomes.

- That airports should build only the infrastructure that provides the level of service that passengers value and are willing to pay to use; there should be no gold-plating or expensive infrastructure projects that passengers will not value and do not want to pay for.

- That passengers should pay for new infrastructure only when they use it, like toll roads, and not for years in advance.

Finally, all new capacity must be delivered sustainably, of course. Sustainable Aviation's work shows that aviation emissions can be put on a downward path without artificially constraining demand. We recognise that local noise and environmental impacts need to be addressed. As part of specific proposals, we look forward to the Commission's views on these.

IV. Conclusion

To conclude, passengers want to travel point-to-point and to transfer only if they have to or if it is cheaper. They are very price sensitive, and that tends to be leisure. Future connectivity will be driven by the demand from point-to-point rather than transfer, and the future of aviation capacity should be determined by this consumer demand, not central planning. It does need to be delivered cost-effectively. Thank you.

Sir Howard Davies

Thank you very much, Carolyn. We are going to move straight on to Paul Kehoe, who is from a far-flung London suburb to the north-west, which we have visited.

Statement 2

Paul Kehoe

Chief Executive, Birmingham Airport

I. Preamble

Good afternoon, everyone. Thank you for the opportunity. My name is Paul Kehoe. I am the Chief Executive of Birmingham Airport, and I am delighted that you have asked me to come and give some evidence to the Commission. As you might expect in this northern suburb of London, we have a very different perspective on the thing and, indeed, we welcome the Commission's approach to take a fresh approach to this very complex and demanding issue. In essence, what am I saying? What is my executive summary? We are suggesting that we create a network of great airports for our great cities: a solution that can work with or without HS2; a solution that can fill the gap while we fix some of the problems in the South East; an aviation plan for the UK that will take us into the next century. Indeed, a plan that will actually shape the form of airport competition.

II. Global Activity

There is no doubt that we are on the edge of a significant change in the future in terms of global activity. It is steadily moving eastwards as we speak. We are seeing hubs created in the east of Europe, in the Middle East and in the Far East. Globalisation is driving growth, and we are also seeing the rise of the consumer. Consumers want choice. Notwithstanding climate change and the issues that come out of that, and the sustainability of aviation, we might be becoming a mature aviation market, but there are new markets across the world where we are going to see significant growth, and if you look at the propensity to fly in those nations, it is going to be quite dramatic.

The 21st century might be Asia's century. It is going to be the consumer century, and consumers' demands are rising. However, for aviation we need a sustainable approach, and the types of travel that we see on certain types of aeroplanes are probably going to be around for the next 50 years. The evidence for that is that the ones we currently have been around for about 50 years.

III. Aviation Policy as National Issue

I would contend that aviation policy is a national issue. There has been a tendency only to look at the South East as the problem. What we know is there is burgeoning demand coming over the hill. We are told by aviation forecasters, conservatively, another 100 million passenger growth. That cannot be handled by Heathrow, nor indeed one hub airport in the South East. Having all your eggs in one basket does not give you the flexibility and resilience that a country needs. We have other options. They are not all in the South East, and more importantly, BAA themselves, now Heathrow Airport Holdings, identified the importance of regional airports to local economies. The evidence we have for that is the M3 and M4 corridors, and the economic impact that it has brought to west London. Yet are we really saying that in the UK, the sixth-largest economy in the world, that we can only have one hub airport?

When you look to consumers, they say something different. Mr Wang, Chief Executive of MG Cars in the Midlands and his team, fly weekly to Shanghai, sometimes twice a week. What they are saying to us is they do not want to fly, be conditioned or pushed into places where they do not want to go. ‘We want to fly direct, we want that choice and what is more,’ in his case, ‘we are prepared to pay for it,’ but in our UK-centric view of the world we have to realise that the UK is not London and London is not the UK. The UK is 60 million people; the South East is only one-third of that.

What I would suggest is that we have some great cities across the UK, and they need a series of long-haul, point-to-point airports, or even hubs; it does not matter. It is a definition. What we need are small and large airports served by great airlines, and it is the airlines that create hubs and the airlines that create focal points. We need to give consumers choice. Airports are engines of economic growth, and what those engines need is vital connectivity. Connectivity locally and interurban, to make sure those networks work to give 100% of the UK population access to a global airport that can reach global markets.

IV. Benefits of the Model

What are the benefits of this model? I believe it adds a short-term opportunity. It can also support the long-term gap as well while a decision is made on the solution for the South East, because we do recognise there are problems in the South East. It is flexible. It can respond to aviation trends. It provides a resilience; resilience that we do not have today when everything stops when it snows. More importantly, it gives the consumer choice. It does represent a national strategy, not a strategy for the South East, and it allows markets, airlines and airports to differentiate, to become focal airports or hub airports. It gives our economy an opportunity to connect with the world. It plugs us into global wealth. It rebalances our economy. We will not have an overheating South East, and it will continue to enhance our status across Europe. Therefore, I think what it gives us is that our great cities should have great airports. Thank you.

Sir Howard Davies

Thank you very much, Paul. I am sure we all want to question you on some of that in a moment, but we are going to go straight on to Roy McNulty. Roy has chaired almost everything in the airports and air flights business at the CAA and now of course Gatwick, although when I first met him he was building Short Skyvans, I think.

Statement 3

Sir Roy McNulty

Chairman, Gatwick

I. Preamble

Thank you for the opportunity. As you politely said, I have been around this for a very long time, 20 years staring at this particular question, and like Carolyn I am really, really keen to see that we reach a conclusion this time and some action is taken. I thought I would just take the opportunity in this few minutes to comment on a couple of points in the consultation paper.

II. Aviation Futures

First of all, relating to the Aviation Futures, I particularly wanted to comment on the first of them, which is the one that identifies a possible future trend of continued liberalisation, further consolidation, further strengthening of alliances, and the dominant role of major focal airports is enhanced. A couple of points I wanted to make: first of all on the data. It seemed to me it relies quite heavily on the Deutsche Bank of some months ago, and as we understand it, some of that data is revenue per passenger kilometres, which obviously weights it considerably more towards the long-haul part of the market, and may or may not be an appropriate guide taken as a whole.

The second point, and perhaps more important, is that may or may not be right at a global level, but we need to focus on what has actually happened in the UK. Looking at the UK market divided by carrier type, long-haul full-service carriers have been losing market share consistently for the last 10-15 years. The most remarkable phenomenon is the growth of the low-cost carriers, and that is the huge change that has happened to us, so to say that the world is one in which the full-service carriers and their alliances and their focal hubs are the main driver I do not think really holds good for the UK. I would urge the Commission to look particularly at the UK.

A few other points on these Futures: first of all - and I am sure it is obvious to the Commission - the Futures are not mutually exclusive. A much more probable outcome is a mixture of several of them, and the other, most important point to make here is that continued change, which nobody can predict with confidence, creates an unavoidable uncertainty, and it is absolutely essential that whatever plan we come up with for the future recognises that uncertainty and develops an aviation infrastructure which is robust and flexible in the face of changing market demands and does not, as Paul said, put all our eggs in one basket.

The other aspect I would like to touch on briefly is the advantages, disadvantages and trade-offs which I found a very interesting part of the consultation paper. The point I wanted to make is, we think, from a Gatwick point of view, there are some other aspects that should be included in that balance. Resilience is certainly one of them; the passenger experience is, in my opinion, certainly one of them; and probably – and I say probably because we have not seen the proposals come out on the table as we will in 10 days' time – I think cost and deliverability will be an issue with either the existing hub or some future hub down on the Estuary.

We believe also that in reaching conclusions on the overall balance of advantage and disadvantage, you need to look closely at the future incremental traffic. The make-up of traffic will remain not very different from what we have today, where we are 60+% to Europe, 70+% short-haul, 87% origin and destination traffic and no likely number of routes to China or elsewhere are vastly going to change the make-up of the traffic that we need to deal with.

Finally - I would say this, but we believe very strongly - our view is that a constellation of three two-runway airports will meet the needs of the UK and London better than a mega-hub, and provide the best response to that balance of advantages and disadvantages that you have laid out in the consultation paper. Thank you.

Sir Howard Davies

Thank you very much. You are all very disciplined presenters.

Statement 4

Tim Hawkins

Corporate Affairs Director, Manchester Airports Group

I. Preamble

There has been a late substitution. I am Tim Hawkins; I am the Corporate Affairs Director for the Manchester Airports Group. Thank you, Sir Howard. As the operator of four airports in the UK – Manchester, Stansted, East Midlands and Bournemouth – MAG has a broad national perspective on the issues being considered by the Commission. The Commission's final recommendations will set out conclusions in overall terms on the best way of meeting the UK's future travel needs, balancing the interests of passenger, businesses and the economy with those of the environment and people potentially impacted by development. No matter which way you lean on the question of original models, it is clear that compared to a scenario of doing nothing, developing new capacity will have significant economic and social benefits for the UK, by supporting international connectivity for businesses, by enabling people to travel to experience foreign cultures and to visit friends and relatives.

II. Operating Models

In that context, we recognise the importance of the Commission considering different operating models, and reaching views on the weight that should be attached to each of these in its overall assessment of specific options later in the process. Hub and dispersed approaches will have different benefits and impacts, and at this early stage we believe it is important to take a view on operating models that does not confine or limit the range of options that are included in your shortlist later this year. In other words, the purpose of considering the merits of different operating models should not at this stage be about trying to establish which is best and then focussing on that subset of options and excluding other options that do not fit that model. In our view, the right approach would be to take forward a range of different options for more detailed evaluation throughout 2014, and then use its conclusions on operating models as a factor in its overall assessment of how, when and where new airport capacity should be provided.

In principle, we agree that a true and effective hub would have the potential to generate the greatest level of connectivity and the greatest economic benefit to the UK. A new airport specifically designed and operated to service the UK's hub, with good levels of resilience, short connect times for passengers and the potential to operate waves of in-bound and out-bound flights provides the cleanest and most-assured way of achieving this objective. Heathrow, starting from where it does today, with the environmental constraints that comes with its west London location, does not offer a good option for developing an effective hub for the UK. Developing a new hub and securing the associated benefits will only be achievable if there is firm political commitment to closing Heathrow: a decision that we recognise would have its own social and environmental impacts, requiring careful consideration.

The range and significance of the issues associated with delivering a new hub reinforces the importance of the Commission taking forward a range of options to detailed evaluation in what has been detailed as a dispersed model. The dispersed model would build on the strength not only of the South East market but also the leading role that Manchester plays in providing global connectivity for its catchment of over 22 million people. Through the flexible delivery of incremental capacity, the dispersed model would create a platform for strong competition between airports and between airlines, an outcome that would yield significant benefit for passengers and the economy.

III. Conclusion

To conclude, the hub model and the dispersed model have different strengths, and they raise a range of different issues, and we support the Commission's focus on these issues at an early stage. We believe your views on operating models should be used to inform your final assessment of shortlisted options in the next stage of your Inquiry, rather than used at this stage to determine the composition of that shortlist.

Panel Questions

Sir Howard Davies

Thank you, and an interesting point about our process, which we will certainly reflect on. As my colleagues all have questions to ask, let us kick off with one from me: Carolyn said that of course all the economic benefit comes from point-to-point passengers rather than transfer passengers, and Roy, you talked about how the profile of passengers and their destinations was likely to remain substantially as it is. However, in the earlier session a lot of emphasis was placed, both by Transport for London and by Heathrow and British Airways, on what, if you like, happens at the margin. In other words, the economic significance of the new routes to emerging markets, to the BRIC economies, to use that shorthand, and that those can only be justified by transfer traffic, and that those are where the future lies, if you like. Both of you implicitly downplay that, and do not think that is a hugely significant future. I wonder if you could comment on that argument.

Carolyn McCall

We have not seen any evidence that transfer passengers actually bring economic benefits into the UK, so if you look at transfer passengers, other passengers subsidise transfer passengers in airports. The charging structure is usually designed around the transfer passengers that are so important for the airline, rather than for the economy, and therefore our experience of other hub airports that we operate out of – Charles de Gaulle not so much, because we have a different pricing structure, but - in Schiphol, for example, our greatest problem why we do not base aircraft in Schiphol is because the pricing structure massively disadvantages point-to-point because of the incumbent legacy carrier, who depends on transfer passengers. Therefore there is a massive subsidy that is given to them, even though actually servicing transfer passengers is much more expensive for the airline: massive baggage belts, you know.

Sir Howard Davies

The airline or the airport?

Carolyn McCall

Well, both, but the charges are applied unfairly, so actually in the end what happens is the passengers end up paying for that. Airlines cannot carry those costs and therefore they pass them on to passengers, and that means fairs just go up. That, I think, is where you just do not see what the economic benefit of a transfer passenger is. I can see what the economic benefit to the airline for a transfer passenger is. If you think of our average fare, our average fare is £60 one-way. BA's fare to Shanghai is £10,000, so you can see the economic benefit to the airline completely. I just do not really see it for UK plc.

Sir Howard Davies

What about this argument that you do not get the economically significant routes unless you have the transfer passengers to fund them, if you like? Part-fund them.

Carolyn McCall

What do you think?

Sir Roy McNulty

Well, just to go back to the beginning of what I said, I said I do not think the profile is going to be very different, and if you look at DfT's forecasts, and an independent forecast that we got produced, out to 2040 and 2050 the distribution of passengers between those main routes does not change enormously. That accommodates the fact that traffic to, say, China will grow at 5+% consistently over that period, but it is coming from a very, very low base, so it does not really change the overall balance of things. The argument that only the hub can produce long-haul connectivity to developing economies simply is not true. Gatwick has only been – I would say – free from BAA for three and a little bit years; prior to that, BAA's policy was to direct all the long-haul traffic other than leisure to Heathrow. We are now showing that we can attract long-haul traffic, and in the *One hub or none* paper last December, I think, Heathrow highlighted the case of Indonesia. Indonesia is now coming to Gatwick, not to Heathrow, and they are perfectly happy with what we offer. We have also got new services to China, to Vietnam, Turkey and some others in the pipeline, so it simply is not true that only a hub can deliver those types of services.

Sir Howard Davies

Thank you. Julia.

Julia King

Following on from what Howard was asking, I suppose I sort of picked up, I think, from both Carolyn and Roy that you do not think it actually really matters to the UK whether we have a world-leading hub, that actually the future does not require it, so I would just like to hear from all of you as to whether you think it matters that we have a leading hub in the UK, or is that important for the future? We need the right airport capacity, clearly, but we do not actually need that world-leading hub, or do we?

Roy McNulty

I think a hub is important, and if we go back to basics, the UK is about the third-best connected country in the world after China and the United States. London is the best connected city in the world, and I have not heard anyone argue that we got there through the excellence of Heathrow. We got there because London in particular is the largest O&D market in the world by a distance. We got there through consistent government policies of liberalisation and competition, which have delivered an industry which has been innovative, flexible and has met the market demand. To me, those are the keys, rather than any magic around hubs, in my opinion.

Paul Kehoe

Can I just add? We keep using this word 'hub': it is a principal airport; it is a large airport or small airport. It is an airport. It is the airline that creates the hub, not the airport, so it is British Airways' hub at Heathrow, and British Airways at Heathrow does 24 million of the 70 million, so it is 30-odd per cent of Heathrow's traffic, but that is actually only 10% of the UK's traffic. The UK is a point-to-point market, of which 24 million of the 220 million are hubbing through British Airways' hub at Heathrow.

Carolyn McCall

And I agree with both those views. We are very open-minded. We fly from hub airports and we do not fly from Heathrow, so we feel very open-minded about it. There is clearly passenger demand for Heathrow, and we think passenger demand is what it is all about, right? That is not to say that the market is not predominantly point-to-point, and that there is an over-emphasis on transfer, and there is an over-emphasis on the hub. I think to Paul's point the only thing I would add about the airline versus the airport is that the over-emphasis on the hub means that the airport is constructed in such a way, and hub airports are constructed in a certain way, the infrastructure that goes into them, that drives costs higher and higher, therefore passengers end up paying more. We have to be really, really aware of that, I think, in the next 30 years, because passengers have now got used to flying short-haul Europe at low fares, and they do not want to pay for things that they do not value, and I think that is a very important point in terms of developing any hub airport.

Paul Eden

If we could add from MAG, the way this session has been structured is you would have a panel predominantly in support of a hub and then a panel that on paper is predominantly against the hub model, and from our perspective it is not a binary decision. We believe you need both. The hub is very important, and we would argue that there are routes that fly from London which do require feed, which probably could not be sustained without that feed, but they are probably marginal. There are probably a limited number of routes that require that level of feed, and undoubtedly there are many examples of thick long-haul routes out of London which potentially do not need the level of feed that they are currently receiving. That is driven by airline economics, and you can quite appreciate why they would want to do what they want to do. They are essentially looking to get a maximum return from the assets that they employ.

Equally, the point-to-point market is incredibly important, as the statistics already show: the vast majority of passengers are flying on point-to-point, and we have examples of easyJet out of Manchester growing routes which simply would not be or would not have been sustainable by full-service carriers. It is also important to note that most regional airports are spokes at the other end of any hub operation, so if we take Emirates as an example, Emirates fly three times a day from Manchester to Dubai. They operate the A380. That flight goes out pretty much full every day, 365 days of the year, on every flight. The load factors they lift out of Manchester are phenomenal. Etihad do the same, Qatar do the same, but they are all feeding hubs at the other end and they are onwards to destinations in Asia and beyond.

To reiterate: it is not one or the other. We believe the UK does need a hub, but it also needs to safeguard the interests of the point-to-point market and ensure that we do not lose sight of the 90% of people that are travelling point-to-point. Equally, we acknowledge that there are routes to what we would think of as secondary places in China or wherever it may be that probably do require the feed and the hub-and-spoke model to make them work.

Julia King

Thank you. I am particularly interested to ask Carolyn, but happy to hear from anybody else, as to whether you feel that the growing carbon price as we approach 2050, and I recognise perhaps your plans for 2050 are not quite as defined as they are for the nearer term. Do you see that, as we go forward, changing the model for low cost airline operation?

Carolyn McCall

No, actually - quite the reverse. I think that our fleet is a new fleet. It is a young fleet, average age of aircraft is about four-and-a-half years, and therefore we have very fuel-efficient engines. We focus on carbon footprint very much. We were, I think, probably the only airline right at the very start who said ETS was the right thing to do, because it drives the right behaviour for airlines. We have an order, we will know tomorrow whether it is approved by shareholders or not, about the new-engine aircraft, the new Airbus 320. That is about fuel efficiency and carbon footprint as well as a noise reduction, so I think, actually, we are in a very strong position. If you fly easyJet, I think the stat is that your carbon footprint is some one-third less on the same journey as if you fly another airline, so, actually, I think it is the reverse. I think the low-cost; we rely on a single fleet, newer engines; that is a very important part of the model.

Julia King

Okay, thank you for that. Paul, you talk about the trials of fifth-freedom flights for non-EU carriers. How important is that to you, and what are the risks to that?

Paul Kehoe

Well, I have always been a person who likes the market to work, and we allow the market to work sometimes we might get surprises. At the moment the market does not work because airlines can stop fifth-freedom flights. They can object even though they do not want to fly that particular route. There have been some changes recently, you will have noticed, with easyJet from Manchester to Moscow, and the like, so that is to be welcomed, but I think that the problem that we have is that we are going to be making these decisions based on the intellectual baggage that we carry with us, if you will pardon that pun, which looks back at what we have done for the last 50 years. If in a very different liberalised environment of the future, who is to say we might not have Emirates UK, Qatar UK? We are already seeing that start to happen where you have got Qatar flying Athens-New York, and you have got Emirates flying Milan-New York, so in a future liberalised environment, why could that not be the case? We have a very great airline in British Airways, which is itself in transition as it is part of IAG, and who can say for the next 50 years what airlines will be there, but I think if we have a liberalised environment, with a flexible and resilient infrastructure to support that across the country, we could have very different answers than we have today. We may not have the problems that we had in the South East, because a lot of the problems in the South East are about people from the regions taking up valuable slots in the South East.

Julia King

Thank you.

Ricky Burdett

A series of questions, really, about geographic location and the economy, and perhaps, Roy, if I could start with you: you have commissioned research and you have touched on it in your presentation on effectively the economic benefits of competition between airports. Now, it would be good to hear a little bit more about that. What is it that this research actually says? Allied to that, you mention in the report something about the fact that effectively the UK is not geographically well-positioned to capture transfer traffic to and from other European countries, but better-placed perhaps in terms of the global economy. Could you talk about and weigh those two things together?

Sir Roy McNulty

The benefits of competition first: this is relatively new ground, certainly as far as London and the South East are concerned. Previously we had a strategy whereby Heathrow was to be the jewel in the crown for the long-haul traffic, Gatwick was to look after the holiday makers and Stansted got Michael O'Leary. Shows there is some justice in the world. More seriously, what we are now beginning to see now that Gatwick has been out of the combine for three years, Stansted is just emerging, is a degree of innovation and focus on the passenger, and focus on the airline customers, quite different from what we saw before.

I think one of the most important areas - and Carolyn I am sure would endorse this - ultimately is airport charges. What some of the research that we have done – it focussed mainly on the United States because they have had more hubs for longer than we have – shows is that if you have a dominant hub the airport charges there and the fares there are significantly higher than they would be in the more competitive market, so the competition works in that sense.

A lot is said about connectivity: the research work we have done, which we will submit with our 19 July proposal, says that the connectivity of the dispersed system that we advocate for London is quite similar to what you can get by adding another runway at Heathrow. So, competition works in those ways.

In terms of the geographic position, it is self evident, but if you are looking at traffic within Europe London is not best placed on the western edge of Europe to be a hub within Europe. More importantly, while it had historically had a very important position when the main flow of traffic was to and from North America and into Europe, we are now seeing quite different flows with the eastward shift of the global economy, which is why we see the rise of big new hubs in the Gulf, big new airlines; in due course we will see huge new hubs emerge in the Far East. The UK, sadly, is not as well positioned for that kind of transfer traffic. I do not think that it will end up where the jewel in Ireland’s crown of Shannon has ended up, as it were, to somewhat bypass that. I do not think that will happen with Heathrow or a new hub because London is such a huge market in itself and is a huge attractor, but geographically, if you were to pick a place today to put a hub you would put it in the Middle East or Turkey or somewhere like that.

Ricky Burdett

Following on from that, Paul, given the size of the population in London and the South East and the size of the economy – we heard today that this is well known that projections now for growth and certainly in London are something like 10 million in 2030, possibly 12 million by 2050, and of course what you are proposing for Birmingham as a new centre for international travel might be seen to be going against the flow in terms of the population being further south. How do you deal with that? How do you factor that into your projections?

Paul Kehoe

I think that is a real challenge for the Commission in the South East. You could keep pouring money at it, and we heard, ‘Stop HS2, put 70 billion in to new orbital roads around London,’ but has anyone been around the M25 recently? It is solid; it stopped today. There is no orbital railway system; Crossrail 2 will help. This 10 million population city of the future is going to need help outside London. The rest of the UK can do that, because if this giant hoover, which is London, sucking in all of this energy, what are the two thirds of the population outside the South East going to do? How are they going to get access to markets? Today it takes two hours to drive from Birmingham. Effectively our passengers “fly” in cars down the M40 and the M1 to get to Heathrow. If we could have the 4-5 million back we could make a start on creating critical mass in Birmingham that would be a counter-weight – the same at Manchester and the same in Scotland – and bring back the economic benefit. This would take the pressure off the South East and help give the 60,000 16-24 year olds coming on to the job market in the next few years in the Midlands with no hope of jobs a chance.

Yes, there is some social engineering that is attached to this: if you have HS2 you change the geography of the UK. Again, you take this airport at Birmingham and you move it 70 miles closer to London – you put it in Edgware on the Northern Line, inside Luton, inside Gatwick, inside Stansted and 10 minutes further than Heathrow. By all dint, it will be a London airport – we will still retain the name Birmingham, of course. The point is there are things happening in motorways and rail and road and air, and we have an opportunity and you have an opportunity to shape that; I think if we can shape that, we can get a very different solution.

Ricky Burdett

Of course, the experience of the last 30-40 years of trying to change the distribution of the economy in this country by government fiat has not worked very well. That is important for us to consider, but you did raise the political point, which I agree with, of investment in transport and rail transport, and modern car transport. This brings me to the last question I had, Carolyn: you have a unique experience of easyJet because you have chosen these extraordinary airports, sometimes in places no one has ever heard of – I am thinking across Europe and of course partly in the UK – which are by definition remote. They are not necessarily next to major metropolitan centres with a good rail base, let us say, anyway, of public transit access. What is your experience of that? Do you think access is going to be an issue over time, and do you therefore – in the way that that is your business – welcome the idea of greater investment in public and transport to some of these airports? I have never heard comments from easyJet on that.

Carolyn McCall

That is because – I am sorry to have to do this – we do not fly to remote airports. That is another model, by the man in Ireland. Our most remote airport is probably Southend; Southend is a secondary airport – a tertiary airport, actually – rather than a primary airport, but 75-80% of what easyJet does it to primary airports: Charles de Gaulle, Schiphol, Madrid. We have based aircraft in 11 airports in Britain, including Bristol and Newcastle – which is a secondary airport – and they all do very well for us.

Surface access is critical, regardless of the airport. In our model – and this is not Ryanair's model; this would be less relevant for them – because 20% of our passengers are business passengers, and therefore time is of the absolute essence for them, surface access is critical and is something that I think needs to be addressed. We have made this point in our submission, which is that we need to be looking at this as transport infrastructure as well, because surface access is quite weak in this country: Luton is 9 million under capacity. I know Paul was talking about Birmingham, but actually in the South East you have an airport that could double its capacity if it had better service access to it, and certain other conditions would materialise.

Tim Hawkins

We have written to you on this, about the importance of surface access, and particularly rail at Stansted where the journey time varies anywhere between 40-45 minutes to nearly an hour. While that may have worked within a system of airports where each airport was doing something slightly different, with Stansted now in new ownership the priority has to be to put that on a competitive and equal footing with other London airports. Our vision is to deliver a half hour journey time. We were working with other people to get them to commit to that vision – there are a variety of options and some quite significant costs – but in terms of what then Stansted can do within the London system and the role that it can play, we think you will only find out once you provide that kind of equivalence in experience in getting to London and supporting the business model that Carolyn has talked about.

Carolyn McCall

Luton has one train an hour into London, and yet getting from Luton to London is very quick. I support everything he says on that.

Vivienne Cox

I have a number of questions and they are unrelated, so I apologise for that. Looking, as we need to as the Commission, to the value to the UK of the solutions that we might propose, one of the issues on which we seem to be getting some conflicting information is on the value of tourists leaving the UK to go overseas on their holidays, and whether that is something we should be actively encouraging, or whether in fact that is a drain on the UK economy in terms of the value to the UK economy. That is the first item. I would just like to get Carolyn to answer, and it is probably one you would have a perspective on.

Carolyn McCall

There is the small issue – and I say that ironically – of air passenger duty (APD); it depends on which way you look at it. We are one of the few countries in Europe to have a very high APD; few countries have APD and do not really have a very high APD. If you look at it and say, 'Aviation is an incredibly important driver of the economy because it creates a lot of direct and indirect jobs,' and when you look at the people at the airport, the ground handlers, people on the check-in – the whole infrastructure of an airport has to be supported by people in order to service passengers and airlines – then it is a big driver to the economy, and that is probably an absolutely key thing. That depends on demand, and APD. The airlines commissioned a PwC report, and this is one thing that all the airlines agree on: APD suppresses demand. If you want it to really give some kind of spurt of growth to the UK economy, you would remove APD. That had been proven in Holland: they had an APD tax, they took it away; they made more money for the exchequer there by removing it, because of the flow.

The thing about tourists is, of course, if they are spending money in the UK, but they could be flying in the UK. They could be going to Scotland: bear in mind, every time they fly to Scotland they are paying APD twice; they are paying it up and down, instead of just once to get to Europe and back. That dampens demand again. I think the biggest spur to the economy is growth by airline, so passengers flying – I am bound to say that, but I think there is evidence to prove that we create local economies, we create jobs. Look at somewhere like Newcastle: that economy is massively boosted as a result of airlines being in Newcastle and doing a whole range of different flying: some business, city players, but a lot of leisure flying out of each route, and that boosts Newcastle. It is very important to the local economy there.

Vivienne Cox

Thank you. My second question is around business travel, because the other panel this morning spoke about the absolutely fundamental importance to their economic models of the business passenger. I am interested in the easyJet model, which has 20% business travellers; I would like a perspective on the price elasticity of demand for that business segment, from your perspective.

Carolyn McCall

One of the reasons we target the business passenger – and it probably goes to over 20%, because we have a lot of commuters who use easyJet. One of the biggest changes in the aviation sector and in consumer demand is that more and more people are travelling into Europe for their jobs. They fly with us very early on a Monday morning and they return on a Thursday. It is absolutely packed, and we have about 4%, in addition to our normal business passenger traffic, who are commuters. We target them because, clearly, they are less price-sensitive in terms of the ticket price and they also book extras: they will have speedy bag drop, they will take an allocated seat, etc. They will also book quite late. They are definitely more valuable, but they are conversely – and I know this sounds like an oxymoron – also more price sensitive business travellers. They tend to be corporates who are really trying too hard to manage their costs, or they tend to be small and medium sized enterprises where cost is all-important. We therefore target some of the business passengers that British Airways, Air France, and Lufthansa target and we do very well on that, but we also have a very high market share amongst SMEs and entrepreneurs.

Vivienne Cox

Finally, if I may, a question to all of you: probably the easyJet and the Ryanair model was a disruption to the standard business model and the business practice in the aviation industry. Looking forward, can you see any other disrupters that would mean that the forecast we were relying upon – which is essentially our more-or-less steady state – could be the wrong ones to be looking at? They can be technology, they can be business models: can you see anything that we should be thinking about to suggest that we have still got the wrong model?

Carolyn McCall

I think you are right: the big disrupter to the legacy model is the low-cost model. I think that has a long way to run. I do not think it saturated by any stretch. The most highly penetrated low-cost market is Spain and the UK, and that is still just over 50%, so there is quite a long way to go. Actually, when you look at the unprofitability of legacy airlines flying short haul, our view would be that the future in Europe will be low-cost point-to-point. There will be no legacy carriers flying short-haul point-to-point; it is just unprofitable. That is a massive shift, and it is a growing and continuing shift that I think probably does need to be reflected, because as I think Paul or Roy might have said, the feeder traffic, which is very profitable, is getting smaller and smaller: the pool is dwindling. It is still a very important pool but it has shrunk quite a lot in its importance.

Paul Eden

Just building on that, if you look at the experience in the US as a good proxy for how things may emerge over time, the US now has only three – or shortly will have only three – hub-and-spoke operators. Carriers such as Southwest, obviously the original low-cost airline, are morphing into something that is somewhere between the full service model and, say, the Ryanair model that we are familiar in the UK. I guess the Southwest model is fairly similar to the easyJet model, in that they tend to serve the primary airports, but you are also seeing in the US, the emergence of other carriers like JetBlue, who are bringing forward something different: high quality operations – they are feeding, independently of the alliances, long-haul carriers. JetBlue, for instance, carries a large number of transfer passengers off the Emirates operation into JFK. There are still some changes to come, but I would agree fully with Carolyn's analysis that there are still too many airlines in Europe and there are still a lot of legacy – dare I use the word – ‘basket cases’ which are over time going to decline, wither, and go, and there will be a consolidation around three or four major hub operators and then the rest will be major point-to-point operators such as easyJet, Ryanair and others.

Sir Roy McNulty

If I might just add briefly: I agree with what Carolyn said about short haul. To add to that, I think Gatwick’s opinion is that it is certainly a matter of time before the low cost type model finds its way into the long haul in a big way. It is a much more efficient way of operating and I think that change will happen. In terms of what could disrupt the forecasts, I think in the end it is major economic recessions, such as we saw in 2008. If something like that happened again it would affect the forecast, but history shows that, by and large, the trend line gets resumed at some point.

Paul Kehoe

I would add that I remember in an initial draft in the regional aviation review – the Aviation White Paper of 2003 – there was a line, and I quote, that said, ‘Low cost airlines are a short term phenomenon,’ and that was only 12-15 years ago. Now we see that the two largest carriers in Europe are low-cost airlines: easyJet and Ryanair. The paradigm shift that has occurred I am sure will occur again. I think we have not truly factored in the impact of China and India: when those people start flying the tourism will shift, I think we might see there is an influx of tourism coming to the UK. A statistic I carry around with me: 28 million people last year learnt Shakespeare in China; 28 million people this year; 28 million people next year. When they get the ability to come to the UK when weget rid of the difficult visa arrangements and get rid of some of the APD issues that allow more people to go to European countries, we will see those tourists come here. I am convinced the cork will pop out of the bottle and we will need the infrastructure to support that.

Geoff Muirhead

I think you misquoted that statement: it did not say low cost is a phenomenon.

Paul Kehoe

Short term.

Geoff Muirhead

They said it was phenomenal. That is what they meant – at least, that is what they told me they meant. Given what you were saying about the degradation on short-haul fee to the latest carriers relative to the growth of low cost, what is your view about the sustainability of the current legacy carrier network approach? Is that sustainable? They have already said this morning, I think, that their fee from the regions into London is blossoming; is that a sustainable position? What is your view in terms of the sustainability of hub airports per se?

Paul Kehoe

Can I just give my experience at Belfast? When I was the CEO there we brought easyJet in and British Airways told us they were leaving, and they did. They have gone back in subsequently, but they said, ‘We are leaving Belfast because we made no money on Belfast-London; in fact we lose

£8 million a year.' They said that in year one, year two, year three and year four; they told me they had made losses for five years: £8 million a year, so £40 million. I said, 'Why didn't you do something about it at the end of the first year?' The answer was very simple: 40% of the passengers going from Belfast-London, were feeding New York and wherever else in the world, and the profit that was attributed to those passengers was on the long-haul sector, not the short-haul sector. I am always amazed by airlines saying that – if they lose money, well, 'What? You should do something about it; do not lose money, because you can make money in the right market, you just sort out your cost base.'

Geoff Muirhead

And so say all of you?

Sir Roy McNulty

The chart I showed you earlier of how the full service carriers have fared over the last 10 or 15 years with a significant loss of market share – in fact their market share about halved over the last 20 years – tells you the way the trend has been going. Without a doubt, the low-cost model on short haul will win it all eventually. What may happen at some point is an improvement in ways in which transfers between low cost and full service can happen without having to have a hub and without having to have a dominant carrier.

Carolyn McCall

It may be worth me just clarifying that: we do not interconnect or interline with any other carrier. This is just a point of clarification because, although we fly to primary airports, we keep it as simple as we possibly can so that we can be as efficient as we possibly can. Though many airlines would want to do what you have just suggested with us, there is no real win in it for us; it is really to feed their networks rather than to benefit easyJet. That is just to clarify that.

Sir Roy McNulty

I accept what Carolyn says, but I think in the end, if we are all trying to serve the passenger, the passenger will want easier ways to go from one to another.

Carolyn McCall

And we would support that in a low-cost race, so Gatwick Connect or ViaMilano, which are both things that are referenced in your paper. We are very big in Malpensa; ViaMilano is something we helped create, and we were very supportive of that, which is helping connections.

Tim Hawkins

The one observation I would make is it is quite difficult to observe trends and see general patterns in an aviation market like London, which is subject to such constraints. Trying to interpret what might be going on otherwise, free from those constraints, is quite a difficult job but I think it is worth having a go at.

Paul Eden

I did not answer your question Geoff: the point 'is there a future for legacy carriers?' There is likely to be a consolidation in Europe, let us say, around three or four major legacy carriers and the rest is most likely to get blocked up by the point-to-point low cost model. Again, just reiterating something I said earlier, they are not, in my view, something that will disappear altogether, but the pattern or the direction of travel we have seen over the last 10 years is likely to continue.

Geoff Muirhead

Sir Roy talked about it may not be too far in the distance when the low cost model-type approach to long-haul will be more along that line. Carolyn, I wondered whether you had a thought about that.

Carolyn McCall

We have absolutely no plans to stretch our model to long-haul; absolutely none. We think it is a very different business model.

Geoff Muirhead

And that is not a political answer?

Carolyn McCall

No, honestly. We really specialise in short-haul point-to-point and the longest flight we could do is probably about five hours – Manchester-Sharm El Sheikh would be our longest flyer – and we do that really well. I think if we start going longer haul, fuel becomes a more important factor, [inaudible], asset utilisation becomes diluted: all the things that make our model what it is become more diluted, so it is not for us.

Sir Roy McNulty

To be clear, I did not say that easyJet would do it; I said someone would do it.

Geoff Muirhead

Roy, you and I have a bit of history: I was on the other side of the table to you when you were in the CAA, so I am going to ask you a question in private[?].

Paul, I was wondering: you talked about the role that you could play; what are the incentives and changes you are looking for that would enable you to [play a part?] in the aviation strategy going forward? At the moment you have capacity; what is holding you back?

Paul Kehoe

The dramatic thing about Birmingham of course is that we are late to the party. For a city the size of Birmingham – 1 million, which is double the size of Manchester – Manchester set out her stall in 1954 for what they were going to do. When you were there in the 1990s it had two runways. Birmingham never played that game, so we had a runway that was too short with facilities that were not world class. What we have set about doing is changing that. Also over those 30 years we did not tell anyone we had an airport, so we are coming to the party late but we are catching up.

What you are seeing with the rise of this manufacturing hub in the UK is people recognising there are airports outside London, so some of the natural market forces are occurring. However, we do have this massive hoover, which has been broken up now. The vacuum cleaner that was BAA, that sucked everything into those three airports, differentiated to the low cost at Stansted, charter at Gatwick: full service at Heathrow has been broken up. I do not think we will see low cost at Heathrow in the short-term. Vueling are there I think on a very limited basis, but I think the market will come back and people will get the message that actually, you can fly local. However, if you go abroad and you talk to a Chinese person or an American and they say, 'I want to fly to the UK,' they mean London. They conflate London and the UK as one, and until we get over that, until we can actually encourage people to go into our great cities –Visit Britain can help us do that, so there is lever in all those places where we are marketing for our inbound tourism. If a lot of people want to fly to the UK, we think we can put the packages together that will get people in to the regions. It is a challenge because the received wisdom is there is only one way in to the UK and that is London, and that is via Heathrow.

Geoff Muirhead

My last question is to Caroline: you said at the start of your observations that the UK's aviation infrastructure is 30 years out of date and was fit for a purpose perhaps in the past, but is no longer fit for purpose today. What differences or what changes would you see?

Carolyn McCall

What I was reflecting is that the infrastructure developments of all the airports that we operate out of, across Europe and in the UK, is very much about the legacies of the past. For instance, even though easyJet does not want jet bridges in any of its airports, 70% of where we fly have jet bridges and are absolutely wedded to them because the whole airport was geared around jet bridges. They are costly, they are inefficient and they take a lot longer to board a plane – that is just one small example of how airports are structured. Most airports have, for instance, very large baggage belts – complicated systems that run the baggage belts. We do not need that; we are point-to-point – we tend not to lose many bags actually, we really do not lose many bags. You may have an example for me later Geoff about that; it is quite a rare thing because we are going point-to-point and the bags get on the plane, so we do not need complicated structures: complicated structures cost a lot of money, and eventually passengers pay for all of that. That is what airport infrastructure has been, and what we are asking you to guard against is to say that what has been is what will be because that is how it has always been done, when actually what we have all said – and I am sure the morning participants would also agree – is that the future of aviation should not rest on what has happened in the last 30 years, because it has changed fundamentally.

Tim Hawkins

Can I just add to that Geoff? I was going to say, there is a real world example of that: Stansted has just announced plans to reconfigure the terminal and to change the split between the land-side area and the air-side area. We have gone from a position five years ago of checking in about 90% of people's bags, to a position where between 40-50% of people are travelling with bags and need to check in. We have had heaps and heaps of space land-side before you go through security and at the departure lounge that reflected that. We are going to pull that forward, reduce the amount of land-side space, grow the departure lounge, and I think by doing that, make it better place for passengers, and actually affect the business.

John Armitt

I would just like to slightly return to where we started: this concept of 'hub' and what hub really means. My understanding so far is that a hub is fundamentally something that is created by an airline and not by an airport in the sense that an airline or an alliance becomes the dominant offering. BAA were very clear this morning that that was where the growth in connectivity can be achieved, where our future lay in connectivity to growing economies in the east. Roy, their argument was that in fact three two-by-twos would actually be about a half the connectivity capacity of a single large hub – and this was a four runway hub – but the [three said they?] would be a long way towards that four runway capacity. So a very significant difference in growth connectivity and opportunity, through a single large hub, rather than going with 'let us give two other airports an extra runway each,' where we would finish up essentially with, I suppose, almost Heathrow becoming a minor hub, as long as BA stayed there. Could you just comment on this, because your view, as I understood it, was quite different from the one they were expressing? You thought there was far more alignment between the connectivity growth number of movements that could take place with the multiple option rather than the single option.

Sir Roy McNulty

You are absolutely right; our view is different. From what you have just described to me, it sounds vaguely like something that Daniel Moylan told me a while ago, but I may be wrong.

Geoff Muirhead

You may be right.

Sir Roy McNulty

I find great difficulty in relating some of the projections that Daniel and others are coming up with to any forecast that I have seen from DfT; we have had [inaudible] working on ours. Most of the forecasts say that that sort of disparity just is not real. Our 19 July submission will be supported by some work that we commissioned, which was looking at a series of scenarios with different options at Gatwick and comparing them with another runway at Heathrow; it says they are all much of a muchness in terms of the connectivity that you generate. When all of the data comes on the table, both from Daniel and ourselves, what needs to be done is a comparison of those two to try to understand which makes sense and which makes less sense.

John Armitt

Funnily, the point that was made by a number of people yesterday and again this morning was in fact that we do not need any extra capacity in the UK but we can cope with the existing infrastructure that we have, particularly bearing in mind CO2 obligations going forward that we do not need to add any extra capacity. I would just like to clarify, because I think most of you this morning have said that you see there are capacity constraints, that there is a need for expansion and I just wanted to get clarification from you that you do see the need for extra capacity.

Sir Roy McNulty

Certainly from my point of view, I think there will be a need for extra capacity in the mid 2020s. Some of the calculations that people have done have aggregated the total maximum capacity in the UK, but we talked earlier about, as Paul said, the challenge of attracting more traffic in to Birmingham. It is even more so if you are sitting in Belfast, as I used to do: the traffic you can get through and the Belfast capacity depends on the population around there. The idea that you can direct the traffic to spread itself around the UK does not stand up.

Secondly, there is danger I think in some of these conversations about maximum use of capacity – people calculate the absolute maximum that could happen: in other words, we head in the direction of replicating the current Heathrow experience right across the country, which I do not think any sane person would really advocate. There has to be adequate resilience within the system, and that has to be factored in to these calculations.

Paul Eden

From MAG's perspective, we would agree that there is a real need for capacity in the South East in broadly the same timeframes that Gatwick and others have identified – mid 2020s onwards. For us, and I think for the majority of people in the industry, we need certainty and we need to be able to plan for the provision of additional capacity. If we do not have that certainty then it is incredibly difficult for any airport operator – particularly in the model we now have, where we have the three largest airports in London owned by different owners – it is incredibly difficult for us to plan for new capacity unless there is some certainty around policy – and some certainty around how you would then finance that capacity – some certainty around the surface access that would go into those airports, etc. We have seen BAA's experience of spending I think 200 million on the SG2 public inquiry, a large sum on money on planning R3, only for the whole lot to be thrown up in the air and ripped up. We cannot have that situation arising again. So yes, we need capacity, but we need certainty to enable us to plan for that capacity, and whatever decision is taken – whether it is additional capacity at Heathrow or Gatwick or Stansted or wherever it may be – we have to have that certainty as an industry.

Carolyn McCall

I completely agree with that, and I think that we are, as I said, very open minded about where it is. We are in a very long game here. Airlines traditionally you said cannot see very long out, but actually our fleet plans are 10-15 years out: that is how far out we have to take judgments and risks. I think it is incomprehensible that we do not give certainty. I completely agree with you: one of the things that had been very difficult is not knowing from the airline or an airport perspective about where you can plan your future growth and where you can plan your asset utilisation and maximising your efficiencies. You do not find that in other markets in Europe: we deal with ADP we deal with Schipol – they are crystal clear about development – they get strong government backing, regardless of the politics, about their development for the future, and that gives them an edge over the UK.

Paul Kehoe

Just briefly, my concern about the four runway hub: wherever you put it, when you have spent your 100 billion probably building this thing, you have probably damaged Heathrow, you have probably damaged Gatwick because history tells us every time you put capacity at Heathrow or elsewhere, Gatwick is the first airport that is damaged. You start to damage these other airports. You might have closed London City, you may have to close Southend – I do not know – but you are not going to get four new runways: you are going to impact on the capacity that is already there. You have spent a lot of money and you are no better off, and you have still got all your eggs in one basket, which means you have not got the resilience and flexibility, and you have not rebalanced the UK economy.

Sir Howard Davies

I am about to go to the public for people to make statements that they would like to have on the record, but just let me ask one last question: it is an easy one for Carolyn because it is just a yes or no, but if you are all right that the legacy network carriers are under threat and likely to diminish in significance quite considerably, and therefore the short haul future lies with the low cost carriers, then if you build a new four runway airport, there is going to be a little bit of a shortage of tenants unless you go there. You are not at Heathrow at the moment, but would you go to a new four runway expensive new airport?

Carolyn McCall

It depends entirely on the pricing structure. Like I said, we fly from many other hub airports and it really does depend on pricing for us, because we have to preserve our cost advantage.

Comments from the Floor

Anna Mahoney, Director, Strategic Aviation Special Interest Group

Thank you, Sir Howard, for the opportunity to speak; it is Anna Mahoney, Director of a national group of local authorities called Strategic Aviation Special Interest Group – SASIG for short – working for that membership and operating as a special interest group of the Local Government Association, but representing the membership, and not the LGA, just for clarity.

I wanted to bring into the discussion a call for improved economic assessment: so whatever options are being looked at – be they for existing, or any future capacity – that that be looked at on the basis that we understand the net outturn – what are the facts and figures on a gross element. I think that it is important to understand that in relation to the sector that the Airports Commission is briefed to pay attention to. Their net economic assessment can actually help in a similar number of ways, not least recognising that aviation sits within the broader context of other economic sectors in each locality, and each of those sectors has needs and wants to also be taken into account. In support of a mixed economy for the country, looking at demands on local infrastructure in the broadest sense – so roads, rail, water, including flooding elements, energy, housing, etc. – including that in to your net economic assessment can then better take account of both the needs and wants of aviation consumers and producers, but also in concert with the consumers and producers in other economic sectors, all of which are necessary for that mix, and therefore hopefully a more robust UK economy.

Improved net understanding can also help you capture projected economic gain, so for any development option you learn from the past, looking at where projected gain may or may not have been achieved – in particular where they were not achieved – and trying to understand what did not happen, that they were missed out on, who that [inaudible] model, and therefore you can understand what helps and hinders the capture of economic gain that we are all seeking to achieve from some of your work, and in the whole of the context. And also an improved net understanding could inform discussion about the mix of financing: what needs to come from public and private sectors, and that meta-outturn also could help inform that. So, just to commend to you, whichever options you look at, that you will have a net understanding, not simply the gross. Thank you.

Brian Ross, Stop Stansted Extension

Brian Ross, Stop Stansted Extension. Yesterday, some of you may recall that I raised the point that Stewart Wingate, Chief Executive of Gatwick made a few months back, when he said that if approval was given to a third runway at Heathrow, that would kill the business case for a second runway at Gatwick for perhaps 10 years, from the 2020s to the 2030s. Two points come from that. Firstly, in terms of trying to get a consensus, there may not be such a huge gap between those of us who say that we do not need any more runways, and an industry voice which says that commercially, there is only really stock to go with one new runway up until 2030. That is perhaps not surprising: since Gatwick was brought, perhaps at a snip, for £1.5 billion, for an airport handling more than 30 million passengers a year – so it had a revenue stream straight away – and the cost of trying to build a speculative additional runway would be at least £3 or £4 billion.

However, there is a concern here, which is that Birmingham, Gatwick, perhaps Stansted, certainly Heathrow, and no doubt Boris Johnson, will all be putting bids into your Commission at the end of next week for multiple, multiple bids for new runways all over the place, and maybe all they are looking for is a put option. I will put it that way, it is a put option: they have nothing to lose by putting in a bid, but for all the communities who live around Heathrow or Birmingham or Stansted or the Hoo Peninsula, as soon as you publish your shortlist, you will wipe billions – certainly hundreds of millions – of pounds off the property values. At Stansted 10 years ago when Stansted was first on the list for a second runway, the property blight was somewhere between 700 million and a billion, just at Stansted. If you replicate that in West London, at Gatwick, and elsewhere, that is a huge sum of money, and I just wonder whether we can give them all a free lunch: can they just ask for a put option, and then there is another two years before anyone knows exactly what is going to happen? I do not know this, perhaps it is too late in the day, but I think there should be some requirements for those who put in bids by the end of next week, to demonstrate the commercial viability of them.

Sir Howard Davies

If I may say, I think we are very conscious of the blight question and the need to narrow down the options as soon as we can, certainly. We might debate subsequently, Brian, whether you are talking about a put option, or I would say a call option, but there we go.

John Strickland, Director, JLS Consulting

Personal credentials first of all, I am a Yorkshire man, I began my career in the Midlands, so what I would suggest is I have a UK view of aviation. I have worked for a number of companies over the last 30 years; I think varying experiences inform discussion today. We were talking airport operational models, but I think equally important, and we have not touched on it extensively, are the different airline operating models.

I began at British Midland Airlines – of course it is no longer with us – they began their activity as a regional operator, having East Midlands Airport, but had to move down to London in order to get a big enough market, and indeed when Sir Michael Bishop sold British Midland to Lufthansa, the whole basis of what Lufthansa thought they were buying was the value of the slots at Heathrow, and of course subsequently they sold on to IAG and we heard about the benefits to IAG this morning. Later, I worked for British Caledonian Airways, they had a big lot of network out of Gatwick, but I remember clearly how much we struggled with that long haul network. When I moved after the merger or takeover of British Caledonian to British Airways, it was a revelation to find that we thought we did very well to fill our premium business cabin from JFK to Gatwick one night a week on one service.

I came to British Airways and started looking on the reservation system, found British Airways was filling the premium cabin on New York on several flights a day, every day, with a high capacity. Now, later, I went on to work for KLM, and we heard earlier on the question about why are there more, as it were, domestic points, and the UK domestic points in to Amsterdam Schiphol as compared to what we have today in Heathrow. KLM, I know from working on the UK part of the business, simply could not live without the UK market. Of course the Netherlands as a country with Schiphol as a hub, KLM – now part of the Air France-KLM group – needs feeder traffic much more so than in any carrier in the UK: over 60% of the traffic they carry is as a result of feeding in to Schiphol. That is largely from the UK, but if on a point-to-point basis, and again, just touched on this recently, but its shareholders[?] lost money, but they had to be sustained in order to make the long haul part of the business work and to deliver overall profitability.

Last year I worked for a low cost airline called Buzz, which was a very small subsidiary of KLM, later sold to Ryanair, and what that really taught me is the way that low cost carriers have revolutionised the landscape for short haul travel, in not only Europe and in the UK but worldwide, and plus we have had Birmingham [inaudible]. Low cost airlines are not incumbent with the issues of having to deal with complex infrastructure, baggage transfers, so on. They have been saviours to the UK region. They have made many markets work; whichever carriers did, and they have opened new markets, which the legacy carriers could not, so I think we have to look clearly at what these different models mean for different capabilities of different airlines, the different implications that had between London and the UK regions, because today airlines are learning better than they ever did before about the need to eke out better than previous profitability, and the low cost carriers have really led that way with focus on cost, the legacy carriers have focused on the same issue, and that is determining where they are willing to allocate their capacity, because finally aircraft are mobile assets, they can be moved around the UK, around Europe and around the world. Thank you.

Jeremy Taylor, represent Gatwick Diamond Business.

Thank you. Jeremy Taylor, I represent Gatwick Diamond Business, we are a membership organisation of employers around the Gatwick area, employing about 50,000 staff – so fairly parochial, but trying to take a country view. A point had been made about the importance of connectivity and one of our arguments is that connectivity brings economic diversity: vast numbers of businesses around Gatwick are not in aviation, but they require those roots in order to be there and survive. I think the point has been made that if Heathrow grows or other areas grow then Gatwick will decline, and you can see that if a hub airport in the estuary is built and deliberately Heathrow may have to diminish – the impact on the local economy.

If I may, I will pick one very specific example: we have a local company that is in oil and gas exploration, they have 600 employees, most of them graduates, masters, PhDs in oil and gas, and, following OpenSkies, when the routes that they needed to reach their customers, those routes moved mostly to Heathrow, but also to other airports, or using St Pancras to get down to Paris.

Their taxi bill in one year was £130,000. Now, that is an impact on that business, which one day the French parents are going to be thinking, ‘Why are we located at Gatwick when we cannot use that airport, and I think what we will see is that if we have an impact on the network of airports serving London, then we will see particularly foreign owned businesses wondering why they are based in the UK. From a non-technical point of view, also, the impact of Air Passenger Duty on foreign owners of companies to locate business in the UK is severely damaging. Thank you.

Christopher Walkinshaw, Air League

We are submitting to you separately, so I will not rehearse all of that in the interest of time, we will stick to the major point. We completely understand and support the need for the point-to-point services and the regional airports are an important part of the solution. We do, however, believe that a hub airport is critical to the broader success of the UK economy and the connectivity, which we have been hearing about. Our plea is: as has been mentioned by others from this morning’s session and this one, is that we do move on it. We are already starting to suffer from that problem of the capacity issue hub, and we will be losing our position economically in the world; we think that is bad news for us. Please can we have your recommendations and please can we encourage everybody to support them and get on with it.

Brenden Sewell, Gatwick Area Conservation Trust

Brendan Sewell, Chairman of the Gatwick Area Conservation Campaign. Can I, first of all, support everything that Brian Ross has said about the danger of blight and the areas around a large number of airports becoming run down slums because people are not going to invest in the private infrastructure, whether it is improving their homes or improving public buildings in those areas? The whole operation is slightly damaging. It is also, in history, shown that many models do not work; we have submitted a paper to you showing all the previous models of airports over the 50 years that have turned in to total white elephants. But this morning, I am mainly concerned with the economics of the exercise, as has been mentioned earlier. If Heathrow got another runway, it would fill up at once, but if Gatwick or Stansted or the dispersed model or even Birmingham got another runway, it would not be full immediately, it would be quite expensive to build for a return which did not come in immediately. Also, as has been mentioned, the new runway at Gatwick would cost two or three times as much as global infrastructure pay for a fully operating airport. It is quite clear that landing charges, airport charges, would have to rise very substantially – thank you Carolyn; I like the wave – and I really want to know whether the airlines would use another runway if it were built, if it meant very much higher airport charges.

Closing Remarks

Howard Davies

We have got just a few minutes left and I thought I would just give opportunity to the members of the panel if they have got anything else that they want to add, or to reply to what people have said. You do not have to, but Carolyn, do you have anything further to add?

Carolyn McCall

I will just answer that question. It depends on how that second runway would be funded. At the moment, Gatwick remains regulated and that would mean that airlines would end up funding it, and that means we would have to pass that on to passengers, so we have not seen any economics around any proposals around Gatwick's plans, and therefore we have reserved judgement until we see specific proposals from Gatwick or any other airport indeed. As I said, it is a concern that infrastructure development of this nature can cost huge amounts of money, and what inevitably happens is that passengers will pay because airlines cannot afford to sustain the costs of that.

Paul Kehoe

Indeed, I think I am going to recount that funding it is going to be a challenge, but we need to think differently. If we want to connect these markets that are going to grow, we need that global connectivity and we have to find ways of doing it, and that is the challenge I think we have been given, Sir Howard. Our great cities want connectivity to those markets, and it is a long term game: it is the 22nd Century. If we look back 200 years, we were building railways. Let us hope that in the 22nd Century we will be using our airports wisely and we have a plan that we can stick to and works.

Sir Roy McNulty

I agree with what Carolyn says: the economic viability and all that goes with regulation and everything else has yet to be worked out. We are working hammer and tongs to get your 19 July submission in, and having got there and having now understood the options a bit better, we will discuss it with our airlines, and easyJet in particular, but standing back from it all remains the challenge of dealing with the traffic in the future. We either call a halt to growth in terms of air traffic around the mid-2020s or we find a way to handle it, and I think it would be greatly to the economic detriment to the country if we call a halt, and we have got to find a way between ourselves, regulators and the airlines to fund the infrastructure that is needed, no matter where it is.

Tim Hawkins

I think some parties seem to be encouraging you not to have a plan; that actually demand might not arise and therefore we should not worry. You cannot rule out that the demand might not arise, but I think however you take this forward, you need a plan that you can actually speed up or slow down, depending on how things turn out and how circumstances reveal themselves. There is real benefit to having that flexibility over the long term, that ability to respond to circumstances as they change, and I think with the new ownership structure in the London system you will start to see things emerging that you might not have expected, or at least have not been part of the past. With that range of uncertainty and the range of outcomes that can throw up, there is real benefit in having different ways of doing things in the plan, having potential for a hub, and having potential for a range of capacity across airports in the South East.

Sir Howard Davies

I am going to, I think, call a halt at this point. Thank you very much, Carolyn, Paul, Roy, Tim, [inaudible]. Also thanks to all of you for coming along. I am sure I speak for the whole Commission in saying the four sessions have illuminated a lot of issues for us. Obviously we are getting detailed submissions from many of you – from all of you, almost – but teasing out the arguments in a public forum I think is also a useful part of the process, so thank you very much for participating in it, and indeed thanks to all the staff of the Commission for organising all these events over the last two days. Thank you.

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http://www.ubiqus.co.uk / infouk@ubiqus.com