



Sir Howard Davies
Airports Commission
6th Floor
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31st October 2013

Dear Sir Howard

Response to 'Emerging Thinking' speech on 7 October 2013

We welcomed your recent 'Emerging Thinking' announcement as a step towards establishing the requirements for the UK's future aviation strategy. We are very grateful for the consultative and evidence-based approach that the Airports Commission has taken so far. We do, however, have a number of concerns and recommendations regarding the 'Emerging Thinking'.

The Airports Commission's objective to establish how the UK's status as a leading global aviation hub can be maintained is predicated on the principle that aviation connectivity is fundamental to the success of the UK economy. Together with the fact that rebalancing the economy is a key Government policy objective, we recognise that any decision you take for future aviation capacity will be based on an ability to support the national economy. We are in full agreement with this assessment and have been actively pursuing a vision that will deliver the aviation connectivity that businesses across the UK both need and deserve.

In your 'Emerging Thinking' announcement, you set out that the Commission believes additional aviation capacity will need to be built in the South East. Our vision recognises that this might be required to secure sufficient aviation connectivity for the growth of the South East economy. However, all too often the London economy gets conflated with the UK economy to the detriment of the rest of the UK – which accounts for over 63% of UK GDP according to the latest figures from the Office for National Statistics.

It seems clear that it is not the Commission's intention to fundamentally re-engineer UK aviation by influencing the markets. Yet great cities (and the regions around them) still need great airports or their economies will suffer considerably as a consequence. It is inconceivable that, at a time when Government policy and infrastructure investment is being driven towards a rebalancing agenda, our future aviation strategy will not address economies across the UK, including our flourishing manufacturing sector. As the Secretary of State for Transport stated on the 2nd November 2012, "Aviation is vital to the UK economy and we need to have a long term aviation policy which meets the challenges of the future."

We therefore look forward to the Commission's Interim Report, which we expect to **provide further evidence on how our aviation sector will deliver for the whole of the UK economy, and how any additional capacity will reinforce growth across the UK and not just in the South East.**

Moreover, you clearly recognise the competitive environment in which airports operate and we were intrigued to see language such as "bids" used in recent communications. This would appear to indicate that you now recognise how the process is being interpreted and that your decisions could have repercussions on the competitive landscape for both airports and UK plc. for many generations. We therefore call on the Commission to carefully **consider the implications of the make-up of the "short-list" in reaching its short-medium term objectives.**

In your speech, you set out your approach to four key arguments that we would like to comment on in turn.

1. Forecasting approach

In our response to the Airports Commission's "Discussion Paper 1 – aviation demand forecasting", Birmingham Airport critiqued the existing model and made the case for the consideration of a wider range of scenarios. We therefore welcome your intention to improve on the existing model for aviation forecasting and consider a greater range of scenarios.

When establishing what the greater range of scenarios will consist of, we urge you to **take into consideration wider evidence, patterns and aspirations for growth**. Simply expanding the scenarios around the existing status quo reinforces accepted aviation orthodoxy and fails to enable us to properly respond to fast-changing global aviation trends.

2. Accommodating any rise in demand with existing capacity

It is clear that the Commission is not convinced that a rise in demand can be accommodated within the UK's existing aviation capacity, or that operational improvements can accommodate all future aviation growth. We would agree with this analysis but believe that making best use of current capacity is a first (but critical) step. This will serve to fill the inevitable gap whilst any additional runway capacity is developed and constructed – at best, at least a decade from 2015.

We also agree with your analysis that the airline industry on its own would be unlikely to reallocate services to underused airports. This is why we recommended a number of policy "levers" to the Commission in our short-medium term submission that the Government should adopt to incentivise airlines. We recognise that the imposition of traffic distribution rules is unlikely to be one of your recommendations. However, there is a clear difference between the imposition of such rules and creating an environment for genuine passenger choice which is not purely dictated on the basis of airline preference and self-interest.

In fact, it is our contention that the Commission's 'Emerging Thinking' did not go into adequate detail about how its conclusions will benefit passenger choice. You rightly recognise that the low cost sector has been a trailblazer in running point-to-point routes from underused airports to the benefit of their passengers. As Carolyn McCall, CEO of easyJet, recently stated, *"passengers want to travel point to point and only transfer if they have to or if it is cheaper and they are very price sensitive. Future connectivity will be driven by the demand from point to point passengers rather than transfer."*

We are also concerned that your assertion that "a resident of Greater London takes 2.5 flights a year, compared to just over 1.5 for the country as a whole" could be misconstrued as prioritising passengers in the South East over passengers across the rest of the UK. Considering 63% of UK GDP is generated outside of the South East, the needs of these passengers should be at the forefront of your decision-making process. This will only serve to strengthen the remit of the Commission, which states that the Commission "should maintain a UK-wide perspective". The Airports Commission therefore needs to **illustrate in the Interim Report how any future aviation capacity is to the benefit of the industry's consumers across the UK**.

It is clear that the Commission is sceptical that tools available to influence the market would have substantial effects and believes there could be "perverse consequences". However, we question whether the Airports Commission has appreciated the significant influence that publishing a "short-list" of long-term options could have on the airline market. Clearly, such a list will significantly influence market confidence. Failure to appear on the list will not only carry negative commercial implications for an airport; it could also 'blight' otherwise-resurgent regional economies, as investment flows elsewhere.

If the objective in the short-medium term is to make best use of existing capacity, inclusion on such a list will fundamentally improve an airport's ability to market itself to airlines and fulfil that interim objective. As stated above, we call on the Commission to carefully consider the implications of the make-up of the "short-list" in reaching its short-medium term objectives.

3. Meeting our climate change targets

In our response to the Commission's "Discussion Paper 3 – Aviation and Climate Change" – Birmingham Airport argued that the aviation industry needs to play its part in the reduction of carbon emissions and we set out the ways in which we are already doing this. We also stressed the salient consideration of the carbon implications of surface access.

The Commission's 'Emerging Thinking' rightly stressed the importance of meeting legislated climate change targets. This is not just lawful but is also the right approach for our future. The industry must rise to this challenge. To both increase aviation capacity and meet our commensurate carbon emission reductions, we welcome your call to consider the implications of surface access and the "door to door" carbon implications - as it mirrors our belief in a fully integrated transport approach that delivers for the environment and for the consumer.

A key benefit of short, medium and long-term expansion at Birmingham Airport is that capacity can be 'turned up' or increased in delivery speed in response to government policy and/ or changes in passenger demand. This is a key strength as it does not require Government to commit to building new runways immediately. Birmingham Airport's vision would thus allow capacity to be provided in an incremental, strategically-staged manner alongside Government commitments to reduce emissions in other industries. Thus the UK Government could prioritise carbon decisions, fully in line with the commitments made under the UK Climate Change Act 2008.

Expansion at the Airport would be in line with the Government's overall policy to limit and, where possible, reduce the number of people in the UK significantly affected by aircraft noise. When compared to expansion at Heathrow, Birmingham's vision is significantly advantageous. A two-runway solution catering for 70 million passengers is estimated to affect 60% fewer people than Heathrow Airport does today (at 70mppa).

Birmingham's proposal is also unique in reducing the night noise exposure for surrounding communities. For example, a second runway today could remove 13,001 people from the 57dB(A) noise contour and 34,063 out of the 54dB(A) noise contour. Even at 71.7mppa no one will be affected by the 57dB(A) night noise contour. We urge the Commission to **take into account environmental and noise impacts** when putting forward its short-list of airports.

4. Redistributing air traffic outside of the South-East

In the Commission's October announcement you stated that stakeholders have said: "while their local airports are important to their economies, so is access to the international connectivity available in London and the South East". On the basis of what our consumers and stakeholders tell us, we would argue that - all things being equal - consumer preference could be better interpreted as "while their local airports are important to their economies, so is access to the international connectivity *currently only available* in London and the South East".

International connectivity is indeed important; however, the focus on London and the South East needs to be rebalanced. Indeed, on the 19th July 2013, over 140 businesses and our local LEPs signed a letter to the Airports Commission refuting the implication that they wanted to travel to London to access aviation markets. Signatories included leading manufacturers based in the Midlands – such as William Wang, the Managing Director of MG Motor UK. These signatories highlighted the cost and time penalties of insufficient regional aviation connectivity, as well as the damaging affect this inability to travel easily to new markets has on economic growth.

We therefore believe you need to be encouraging traffic to the most appropriate "gateway" to minimise travel time and environmental impact and maximise consumer choice and economic growth. We believe that this is why the "levers" available to redistribute traffic are so important. As you are aware, and as mentioned above,



we believe there are a number of “push” factors that the Government could introduce to help incentivise airlines to relocate to airports outside of the South East.

However, there are also some key “pull” factors and we welcome the explicit mention your announcement made to some of those that we recommended, including a marketing campaign and surface access improvements.

With the right competitive environment in place it is possible to re-engineer the way that consumers travel. For example, Air India started services from Birmingham in August 2013. Within three weeks of the flights going on sale, load factors in excess of 80% were experienced by the airline. Similarly, a new airline, Air Blue, started to operate from Birmingham Airport to Islamabad and Lahore achieving 100% load factors from day one. Interestingly, according to the airline, a significant proportion of the passengers on this service originated from Luton and north London.

We have also attached a graph showing air fares ex-Heathrow and ex-Birmingham, for both BA and Air India. This clearly shows that the introduction of competition and choice in the market place creates a downward pressure on fares to the benefit of consumers. The interesting point here is that, whilst Air India operated at Heathrow only, the fares remained relatively high. However, the introduction of the Birmingham service saw fares plummet and generated the greatest benefits for the consumer. A more actively engaged airport operator like Birmingham can change consumer behaviour and we look towards the Commission to further encourage this process.

As you will be aware, there is a Behavioural Insights Team in the Cabinet Office, which creates strategies to change the behavioural economic of consumers. “Nudge economics”, as it is often referred to, is predicated on the fact that sometimes some very small changes can have a massive impact.

Moreover, there are both short- and long-term options to help “nudge” passengers into assisting with the redistribution of traffic. These include the use of through-ticketing, the use of a LON code, and airline and rail companies working together to deliver the right services for the consumer. These are just the sort of “nudge” factors that are being adopted across Europe and you may be aware that this is already the subject of an initiative by the European Commission. Moreover, through the increased use of the Internet, informed consumers can make new choices which have not been available until now. This could have implications for the provision of data by air and rail companies and we would encourage you to **consider how such information could be made more available to both the end-user and to travel consolidators.**

In recent speeches you have suggested that the needs of the airlines weigh heavily in the decision-making process; however, we would contend that the ultimate decision-maker is the consumer. It seems irrational to suggest that someone should fly from Glasgow to Heathrow to Beijing because it completely ignores the shortest and most efficient route via great circle through, for instance, Helsinki. It also ignores customer choice of airline, product, cost, convenience and schedule. Such a practice reduces the opportunity for passengers in the regions to fly on a ‘one-stop strategy’ to Australasia rather than a ‘two-stop’ strategy via Heathrow.

Our short-medium term submission outlined the key surface access improvements required to increase our catchment so that by 2032, Birmingham Airport will be the most convenient airport for 19 million people, more than any other long-haul airport. These figures are outlined in more detail in a report we commissioned by Steer Davis Gleave entitled “Birmingham Airport: Helping Birmingham Airport become more accessible by rail from across Britain”.

We are committed as a region to delivering on transport infrastructure and have fully integrated our plans to maximise the social and economic value of major developments, including UK Central, the M42 gateway and HS2. In the last few months we have increased our commitment to working with our transport stakeholders and will continue to work closely with Centro, the local authorities, the LEPs and private operators – to pull together a surface access strategy following the Interim Report and then to take account of the post-2015 scenario.

As you recognised, HS2 presents a game-changing opportunity for the Airport and the wider region. This development will result in 15 million people being within one hour of check-in at Birmingham Airport by 2032, without accounting for population growth. Centro is working on an HS2 connectivity package, which will include input from all our stakeholders, and which they will share with you in due course. This will put Birmingham Airport in a position in 2026 to be 31 minutes from central London.

With this in mind, we noted your **recommendation regarding 'London Birmingham'**. The use of a 'LON' code would, we believe, act as a “nudge” factor, provide more consumer choice and incentivise airlines to deploy themselves within the Midlands. We assume by your comments that this would have your support and we are keen to work with you to achieve this.

Finally, as the Commission will be aware, the south of the UK experienced adverse weather conditions on 28th October 2013 leading to significant disruption of the transport network. Heathrow alone lost in excess of 130 flights – whilst many thousands of passengers were unable to obtain surface access to Heathrow, Gatwick or Stansted. In such a situation, it is unlikely that additional runway capacity at any of these airports would have alleviated the problem and the argument for having airports across the UK to boost our aviation resilience becomes critical.

On this issue much of our initial thinking - *'Don't put all of your eggs in one basket'* – remains valid. A network of great airports for great cities could – particularly at times of national need - provide a lifeline to ensure that UK plc. continues to operate smoothly. We believe that, whatever the outcome for the south of the UK, it is essential that your Commission **considers the resilience issue and makes a definitive statement as to how this should be dealt with in the future.**

Conclusions

We have used this response to address a number of the arguments put forward in your “Emerging Thinking” and to call for:

1. The interim report to provide further evidence on how our aviation sector will deliver for the whole of the UK economy, and how any additional capacity will reinforce growth across the UK and not just in the South East.
2. The Commission to consider the implications of the make-up of the “short-list” in reaching its short-medium term objectives.
3. Forecasting models to take into consideration wider evidence, patterns and aspirations for growth.
4. The interim report to illustrate how any future aviation capacity is to the benefit of the industry's consumers across the UK.
5. The Commission to take into account environmental and noise impacts when putting forward its short-list of airports.
6. The Commission to consider how information could be made more available to both the end-user and to travel consolidators.
7. The Commission to work with Birmingham Airport on the use of a 'LON' code.
8. The Commission to consider the resilience issue and make a definitive statement as to how this should be dealt with in the future.

In response to your provisional conclusion, Birmingham Airport has never argued against the need for additional airport capacity in the South-East. Rather, we believe in the case for a network of great airports to truly serve the national economy.

Our long-term “vision” sets out how Birmingham Airport has the potential to be a critical cog in the network. It highlights the potential for 750,000 ATM's through an enhanced airport. Our incremental approach could deliver an additional passenger capacity of 27 million passengers in the short-term. In the longer-term, an airport of 500,000 ATM's just 31 minutes from London would cater for in excess of 70 million passengers. The



affordability of the scheme far exceeds other “bids” on the table as the total cost of delivering an additional 61 million passengers would be in the region of £6.99 billion.

The Airports Commission needs to address the question of how aviation policy can support efforts to bring growth to the national economy outside London, and take advantage of our competitive manufacturing base. The future competitiveness of global cities was the topic of a recent report by the Economist Intelligence Unit, which took a holistic approach to look at a city’s ability to attract capital, businesses, talent and visitors. In a list of 120 global cities, only Birmingham and London appear from the United Kingdom, with Birmingham (43rd) ranked higher than cities including Beijing, Mumbai, Delhi and Moscow. This potential market share needs to be taken into account when making a decision on the future of our aviation strategy.

We look forward to the interim report in December, and hope the case will be made for a truly national aviation strategy – which supports the interests of the wider UK economy and not just elements of the aviation industry. Thank you for the opportunity to respond to your ‘Emerging Thinking’; we look forward to continuing our engagement with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul Kehoe", with a horizontal line underneath.

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