# Utilisation of existing airport capacity

Regional airports have an important part to play in UK aviation, and by extension the national economy and society. Heathrow has engaged extensively with regional businesses, stakeholders and operators over the last three years. The importance of a UK national hub that connects the entire country to the world emerges strongly from these discussions. Relying solely on other hubs for long haul connectivity is risky, reduces UK economic benefits and market choice. Heathrow's proposals put real emphasis on this national role for the hub. As an immediate next step we have therefore established a National Connectivity Task Force to recommend practical ways to maximise the national benefits of a successful and growing hub airport.

## 1 Introduction

Heathrow welcomes the Commission's latest Discussion Paper. How aviation capacity links to UK economic growth can only be considered in the national context. When taken alongside the additional strategic guidance following consultation to the Stage 2 Appraisal Framework, the Discussion Paper helps to fill a gap in the December Interim Report to Government. Our on-going engagement with regional stakeholders identified this as a matter of considerable concern. For this the Commission are to be commended, and having heard Sir Howard Davies speak enthusiastically about the importance of the regional dimension of the Commission's work we now have much greater confidence that its final recommendations to Government will give this aspect the significance we believe it deserves.

Heathrow firmly believe that enhanced domestic and international air connectivity, which only a strong network of direct and convenient one stop air services can realistically provide, is fundamental to re-balancing the UK economy. We have spoken with over 25 chambers of commerce, a range of LEPs, and numerous other businesses and stakeholders across the UK. They have emphasised how vital air connections are to them in a competitive market across the globe and through a range of goods options. To them it is critical for exports and tourism – in short their future prosperity. It is also important to recognize that this is one of a select list of Government policy objectives where there does seem to be a cross-party political consensus.

Heathrow therefore supports policy measures that enable regional airports of all sizes and geographies to develop to meet their commercial and local economic potential. We believe a proportion of the slots released by a new runway in the South East should be allocated to help improve regional air access to London and a wide range of global onward connections. This is particularly the case for regions and cities in the UK that currently do not have flights to Heathrow and cannot currently, or prospectively, be served by high quality railway connections.

As we have set out at some length in our May submission and in previous evidence presented to the Commission, we are convinced that, of the shortlisted South East runway options, only through new capacity at Heathrow would the UK retain and expand a globally competitive hub capable of serving the whole of the UK. In terms of national connectivity benefits, we therefore believe building on the sustainable development of an already established hub in Heathrow's location offers overwhelmingly greater and more feasible benefits.

If granted approval for a third runway, Heathrow and its shareholders, have committed themselves to delivering a truly 'national' hub airport, linked to, and serving all the nations and major regions and cities. See the box below from our May submission document.

**4.1.1.2 Connecting all of the UK to Growth**

"Our strategy to improve rail, bus and coach services will allow faster and easier access to Heathrow from towns and cities UK-wide. New runway capacity will also enable connections to more UK regional airports, spreading the benefits of additional trade, tourism and economic growth across the whole country."

To maximise the benefits of this connectivity we will establish a Task Force for regional connectivity to develop policy proposals and recommendations for regional access to an expanded Heathrow. It will include representatives

# Utilisation of existing airport capacity

from regional airports, airlines, Chambers of Commerce, Local Enterprise Partnerships (LEP) and business people from around the UK. We will arrange for an expert and independent secretariat to support the work of the Task Force to ensure its outputs form a valuable contribution to the deliberations of the Airports Commission and towards future policy development."

We have already begun work setting up the National Connectivity Task Force announced in our May submission. Lord Shipley of Gosforth will Chair the Task Force and a Secretariat is now in place. We will be reporting progress in the coming months as the Task Force carries out their work. Further details can be found at the Task Force website - www.nationalconnectivitytaskforce.co.uk.

It is in this context, that we have focused this response to Discussion Paper No 6 primarily on addressing the issues the Commission has raised relating to regional air access to London and to a UK hub, rather than focus on broader issues outlined in the paper about the performance and condition of smaller regional airports and how they can be made more commercially sustainable. This is primarily because we think the single biggest contribution that can be made by one of the shortlisted south East options to sustaining small and medium sized regional airports, is by providing the area it serves an opportunity to access regular scheduled services to an enhanced hub at Heathrow and thus to over 200 destinations worldwide.

We also believe that others are better placed to talk to the wider issues covered in the Paper and are confident that the Commission will give due weight to what they have to say. In talking with people and groups up and down the country we have been impressed by the extent of interest in the South East runway capacity debate away from London and the passionate support for regional airports and the conviction about the need for a national hub that accompany it.

Where we have touched other areas raised by the discussion paper later in this reply it is because we see an indirect link to this core issue or consider the issue to be of major significance to the successful functioning of the whole UK airports sector.

## 2 The Importance of Hub Access to Regional Airports

The 'hub question' has been an important issue throughout Commission's work on capacity to date. It remains important in the context of wider utilization of UK airport capacity. While recognizing the importance of developing regional airports to improve point-to-point connectivity within their catchment areas, we also know that those catchment areas will not support the range and frequency of services that can be supported by underlying demand in London and the South East. It is for this reason that we hold the view [supported in principle by the Commission in its Interim Report] that good direct regional air connectivity does not diminish the need for other UK regions and nations to have high-quality access by rail or air to a competitive UK based hub airport. The connections offered by this access are important to maximize long-haul connectivity to the world's leading cities and markets in Asia, the Americas and Africa which will drive 60% of global GDP growth to 2050.

Hubs are not about to be replaced by point-to-point networks with anything like the same levels of connectivity for UK regions at any point in the foreseeable future. We concur with the Independent Transport Commission[1], that it is not safe to assume that:

> "… *the hub and spoke model will be displaced by point to point in the long-haul market*", and that if

> "… *we wish to promote global connectivity, the priority remains the UK's hub capacity. Developing long-haul routes from secondary [South East and regional airports] is to be welcomed, but not at the price of constraining the hub's ability to sustain existing global routes and to develop new 'spokes'*".

Building national aviation policy for the next 30 years on the prophecy that long haul flying for many destinations might become predominantly point-to-point would be a huge gamble. This prediction of the elimination of hubs has been made repeatedly for at least 40 years and never come to pass. Even if it were to start to emerge soon, despite no credible evidence that it is happening, the test for national policy must be that it is unlikely to become the predominant model within the next 10 years or so.

1 Independent Transport Commission, The Optimal Size of a UK hub airport, February 2014

 

# Utilisation of existing airport capacity

What we can see at UK regional airports is the rise of more long haul connectivity through other hubs. The rise of both Schiphol and Middle Eastern routes, and even links to US hubs, shows this trend. Rather than a 'new model' for long haul, UK airports are simply increasingly spokes for other hubs.

We agree with the Mayor of London that London needs access to a World Class hub airport. So too does the rest of the UK and London is the natural location for a UK hub. The reality is that Heathrow is already in the global premier league and the UK's hub airport. It has all the features you would expect of a hub airport - 72 million passengers and nearly 1.5 million tonnes of freight passed through the airport in 2013, on 82 airlines, serving 180 destinations in 85 countries. We have invested £11 billion transforming Heathrow into one of the top ten airports in the world as voted for by passengers. Terminal 5 have been voted best terminal in the world for the last three years.

In June we opened our brand new £2.5 billion Terminal 2 which is already surpassing T5 in terms of passenger satisfaction. Our vision is for Heathrow to remain a truly globally competitive hub for the UK. Our masterplan will deliver a national infrastructure asset of world leading quality in terms of passenger experience; transfer journeys; surface transport connections; resilience and reliability; and cargo and commercial facilities. Heathrow is a global gateway which all parts of Great Britain and Northern Ireland can be truly proud, linked directly to by rail or air.

## 2.1 Why a UK Hub is the best Option for the UK's Nations and Regions

If the hub model is not about to be replaced wholesale, a further question is what benefit the UK, and particularly UK regions and regional aviation sectors, gain from having its own hub versus relying upon hubs overseas. Competition between hubs is a good thing for consumers, economies and the UK regions. Within this competitive aviation market and based on our engagement around the country we believe there are three main advantages to preserving a UK hub.

The first is the direct impact on the UK's industrial base. Every pound spent on non UK based carriers, flying via non UK airports is a pound not captured by the UK service sector. Aviation and related sectors are a high skilled, globally competitive, high employment sector of the UK economy. Even many of the spin off sectors such as aircraft maintenance, specialist airport construction and machinery rely heavily on major UK airports – recall that the hub airport has driven nearly four fifths of airport investment in the UK in the last decade.

The second, a broader economic impact based upon connectivity. Connections offered to the UK regions will, all else being equal, be more frequent, convenient and geared to UK needs and growing the UK economy than those based in Frankfurt, Dubai or Chicago. Closer domestic integration means more services will be sustained, given sufficient capacity, between a London hub and a UK airport than anywhere else. Flight times and cargo capacity are more likely to be geared to UK exporters' needs – we have seen examples of potential exporters who despite having a local link to Schiphol are unable to send time sensitive goods on the route because it is a small aircraft flying at the wrong time of day to match KLM waves in Amsterdam. Similarly inbound tourism and direct investment will, at the margin, be attracted to a UK offering. We can already see this effect in the relative difficultly UK regions have in attracting Chinese and South East Asian tourists versus European destinations. We can see it in cases such as even a major regional UK airport that meets its foreign investors in Amsterdam because they cannot fly directly to the UK. Put simply, having a UK hub means the long haul connectivity benefits will be so greater for UK regions. That is one reason behind the strong empirical finding that UK businesses with direct airlinks trade 20 times more than those without such links (but with indirect links via another hub.

The third reason concerns long term political risk. Relying entirely on overseas hubs to provide UK regional long haul connectivity means those regions, and the UK government, ultimately assuming those airports and airlines will continue to provide that service at all times. When one considers the geopolitical situation of the Gulf states for example, or the commercial rivalries in Europe, this cannot be an automatic assumption for a decades long time horizon. At a minimum, maintaining a viable UK hub with strong connections on offer to UK regional airports is a valuable strategic economic asset which should be treated with care.

It is sometimes claimed that Heathrow would not provide a long term competitive alternative for hub connections for UK regions. We disagree. Our runway proposal will provide enough capacity to operate a competitive hub for the foreseeable future. The 740,000 flights that a new runway would allow Heathrow, and therefore the UK's aviation industry, to compete effectively with other hubs in Europe and the Middle East. Paris, Frankfurt and Amsterdam currently have capacity for around 700,000 flights a year. Heathrow and the UK are ideally placed for a strong hub – over 96% of global disposable income will be within 12 hours flight of London, much higher than Dubai at 63% for example.

# Utilisation of existing airport capacity

Similarly we do not share the views of Gatwick, and some other commentators, that hub airports in the Gulf are the inevitable future of the global aviation industry. These hubs rely excessively on inter-continental transfer passengers to support their networks, with only a very small point-to-point market to underpin these flows. This makes their markets fickle and open to new competitors or shifts in their political and economic environment. New aircraft technology such as the B787, A350 and A330neo will be as beneficial to European hubs such as Heathrow as to a Middle Eastern hubs for network development.

Gulf hub airports have offered a number of regional airports enhanced one-stop connectivity to the Indian Sub-Continent and the Asia Pacific. This additional choice is welcomed by their passengers and good for a competitive UK aviation market. But many of these links have proved hard to sustain, even for peak times and infrequent (e.g. weekly) services for the top tier of regional destinations. Relying on these links alone is not a sensible long term strategy for the UK's nations and regions, especially in a geographic area which is noted for its political volatility.

The Independent Transport Commission's report supports this view and the desirability of creating additional regional air access (our emphasis added):

**"Heathrow relies less on transfer passengers than many other hubs: only 37 per cent of traffic transfers compared with over 40 and 50 per cent at Schiphol and Dubai. More passengers from the UK regions now transfer via these two competitors than through Heathrow.** If Heathrow were to recapture all that traffic, its passengers would rise by around 12 per cent and air traffic movements, based on a simplistic estimate, by 8 per cent.

Recapturing all this business is implausible, even with more capacity. **But enabling more people to transfer from other UK cities via the UK hub would create real opportunities. It would improve air connectivity between London and UK cities and regions that have lost this in recent years. And it would add critical mass to support long-haul flights to and from the UK, making the UK in turn a more attractive destination for foreign businesses and visitors.** This is before taking account of indigenous growth and/or the hub's ability to attract passengers currently transferring at other European hubs – this is a market in which success breeds success (as can be seen by growth at Dubai)."

"The Airports Commission has developed new growth forecasts for the London airport system and suggests that without additional capacity, the number of transfer passengers using Heathrow will drop from 22.6 million in 2011 to less than 4 million in 2050, resulting in a 20 per cent decline in the number of destinations served over the same period. **Enabling the UK hub (whether at Heathrow or elsewhere) to achieve a greater share of this transfer traffic, would address this prospective connectivity loss, give a stronger competitive advantage to the UK and create additional investment and employment opportunities."**

## 2.2 Why a UK 'National' Hub should be at Heathrow

Our feedback from airports, businesses and stakeholders around the UK has also emphasised their preference for Heathrow. This is combined with a desire to support their local airport's development and direct routes. They do not see a contradiction with also wanting a successful hub that is convenient for them. We have heard very clear preferences between south East hub options. UK regions prefer Heathrow over Gatwick or the Estuary because of surface accessibility and their desire to build on existing strengths.

Heathrow's case for being the site for the UK's 'national' hub airport is materially enhanced by its ease of access not just from London but also from the rest of the UK. A hub to the south or east of London would increase travel times to the airport for almost 90% of regional passengers, with the average journey time increasing by well over 30 minutes. Cargo and other road traffic would be increased on precisely that part of the surface transport network that is most congested: London and the South East. A hub airport to the west of London is the best location for the UK's hub.

As we demonstrated in our May submission there are 60% more international companies in the area around Heathrow than in the rest of the UK. It is where highly productive clusters in industries like IT and pharmaceuticals have grown-up around Heathrow over the last 50 years; 202 of the UK's top 300 company HQs are within a 25-mile radius of Heathrow and 120 within 15 miles, compared to 10 as close to Gatwick and only two around the Thames Estuary; and the Thames Valley has 60% more international businesses than the national UK average. From further afield, such as the Midlands, North West or North East the additional surface travel time cost to reach either Gatwick or the Estuary would be equivalent to cancelling out all the benefits of reduced journey time delivered by High Speed 2 (HS2).

# Utilisation of existing airport capacity

Using Heathrow to increase UK connections via a hub builds on existing strength. This is not just building on world class airport infrastructure dedicated to serving UK domestic travellers and UK transfers. Heathrow is already the UK's best connected transport hub. It has the only dedicated non-stop express airport rail link in the UK. It has the UK's busiest bus and coach station. It is the only airport with a London Underground connection. It is the best connected airport to the strategic road network with the M25, M4, M40, M3 and M1 motorways all within close proximity. Additional rail connections already planned and budgeted – Crossrail, HS2, Western Rail Access, mean that Heathrow will become even more at the heart of the UK transport system with a total population of 12 million within 60 minutes of the airport and 70% of the UK population will be within 3 hours by public transport and similar travel time by road if desired.

## 2.3 Connecting all of the UK to a Heathrow Hub

Our ambition is to connect Heathrow to every part of the UK. We will work with Government, airlines and Network Rail to connect every nation and region to global markets, bringing the benefits of additional trade, tourism and economic growth to the whole country. Schemes like HS2 and Western Rail Access will make the North, Midlands, South Wales and the West of England more attractive locations for international business because of their links with a global hub airport. Passengers boarding a train at Sheffield or Manchester could be dropping bags off for their flight at Heathrow 90 minutes later.

Providing connectivity by air to Heathrow from the nations and regions of the UK is equally important. The National Connectivity Task Force will develop policy proposals and recommendations for access to an expanded Heathrow. Representatives from politics and business from across the UK will be invited to support the Task Force ensuring that the benefits of a third runway at Heathrow are felt throughout the country.

Heathrow will be a fully integrated transport hub. The transport improvements already committed, plus those we have planned, can transform Heathrow into a fully integrated national transport hub that offers connectivity benefits for the local area and the rest of the UK. Heathrow will be a vital cog in national transport and provide new direct transport links for local communities.

## 2.4 Domestic Air Connectivity

Figure 1 shows how the numbers of air links between non-London airports and Heathrow and Gatwick have changed over the last 20 years. It is an updated version of part of Table 1.1 in Discussion Paper 06. The decline in the range of regional connections from Heathrow is clear, but also interesting is that the compensating displacement of regional routes to Gatwick is less clear and now appears to be ending as Aberdeen, Manchester and Belfast City have all been lost as domestic destination from Gatwick as Flybe and BA have been withdrawn or downsized there too.

# Utilisation of existing airport capacity

**Figure 1: Change in the number of UK regional cities with air links to London (1991-2012)**


The suggestion in the Discussion Paper that this dynamic had stabilised or that London City is somehow an adequate replacement for domestic connections to Gatwick or Heathrow (it offers a premium point-to-point market rather than any kind of standard leisure or connecting opportunity) is to ignore market realities. The purchase of BMI by International Airlines Group did not 'liberate' domestic slots at Heathrow, it merely transferred them to Virgin's 'Little Red' service to ensure competition (there was no increase in frequency or network). Indeed BA has recently withdrawn Aberdeen to London City services.

We do not entirely concur with the Commission's analysis of the reasons for the recent reduction in air connectivity between London and the rest of the UK, but particularly Heathrow and Gatwick. The sequence of changes described by the Commission can be summarized as:

- During the early 2000s, growth rates of domestic air traffic declined more sharply when competing directly with improving rail services
- Recession then reduced overall demand, compounded by doubling the rate of Air Passenger Duty (APD) in February 2007, from £5 to £10
- Capacity restraints then led to fundamentally declining domestic routes that could now only support smaller aircraft being used

However, we would reverse the order of causality here. Improved rail services, particularly on the West Coast Main Line may have had some impact on services frequency to Manchester and Glasgow, and the air overall market to London from the former has certainly declined. But this is not the case for connecting traffic to Heathrow, and in Glasgow's case it is volumes elsewhere that have suffered rather than at Heathrow, despite the £9 billion of public money spent on the rail upgrade. Transfer volumes to the hub held up strongly from these destinations despite recession – likely in part driven by the need to seek markets and growth further afield via long haul connections.

# Utilisation of existing airport capacity

So the conclusion we draw is more nuanced. Where there is a high volume route with significant connecting traffic, the impact of improved high speed rail journey times and additional airport security will have only a marginal impact. It is where traffic is less time sensitive and point-to-point that the decline is most notable. This prognosis is also born out when destinations on the East Coast Mainline are considered. Here rail enhancements have been more modest and traffic to Heathrow from Edinburgh and Newcastle has been steadily growing. Moreover, even with HS2, we believe these routes to Heathrow will remain strong because to get to the airport for onward travel or to west London requires complicated interchanges which passengers will compensate for in their overall perceptions of journey times and reliability.

Where we certainly disagree with the Commission is whether the availability of wi-fi will have any influence on journey choice. For business passengers this is available in airport lounges and shortly will be on many flights; for those flying on leisure or to visit friends and relatives ‘working time’ is less of an issue, and the ubiquitous ownership of ever more sophisticated smart phones will meet most of their needs for casual access to the internet.

Rather, for us it is clearly the lack of capacity at Heathrow, slot prices on the grey market, slot allocation rules for those slots which are returned to the pool and the rise in Air Passenger Duty (APD) for domestic flights which are the primary mechanisms driving the changes in regional air connectivity to London witnessed over the last 20 years. Additional runway capacity and elimination of the penal effect of the domestic APD ‘doublecharge ’, would we believe give rise to a renaissance in domestic connectivity to a national hub airport. Heathrow is willing to play its part in changing that dynamic if given the chance. Our commitment to a National Connectivity Task Force demonstrates this willingness. Progress cannot however be made alone – it requires the support of key partners such as airlines, businesses and strategic authorities in the UK’s regions and nations and particularly the Government and its regulators to play their part too.

If this is forthcoming, then subject to the conclusions of the Task Force and the Commission’s own recommendations to Government, we can envisage a significant number of the airports flagged in Figure 2 as having no hub connections, either regaining them, or securing them for the first time. We do not believe this will be the case if a runway is built at Gatwick, whose strategic vision for use of an additional runway, does not seem to include any measures to attempt to enhance regional links in a proactive way.

**Figure 2: Review of regional connections to a national hub airport**

| Regional cities with good rail connections to Heathrow in 2030 |
|---|
| Birmingham/Coventry |
| Bournemouth/Poole |
| Bristol/Bath |
| Cardiff/Swansea/Newport |
| Gloucester/Cheltenham |
| Southampton/Portsmouth |
| Stoke/Potteries |
| Tri Cities/East Midlands |
| **Core city airports with existing air service connections** |
| Aberdeen |
| Belfast |
| Edinburgh |
| Glasgow |
| Leeds |
| Manchester |
| Newcastle |

# Utilisation of existing airport capacity

| Regional airports without potential to add hub connections with capacity |
|---|
| Blackpool |
| Carlisle |
| City of Derry |
| Doncaster Sheffield |
| Dundee |
| Durham Tees Valley |
| Exeter |
| Guernsey |
| Humberside |
| Inverness |
| Isle of Man |
| Jersey |
| Liverpool |
| Newquay |
| Norwich |
| Plymouth if re-opened |
| Prestwick |
| Sumburgh (Shetland) |
| West Wales |

## 3 Interventions

Mechanisms for delivering enhanced regional air connectivity with a third runway are one of the issues we expect the Task Force to examine closely. We are perhaps more optimistic than the Commission's initial view that practical policy measures can be found to achieve this outcome in line with EU rules. Key to this will be the willingness of the Government of the day to pro-actively engage in delivering a national hub to benefit the whole country, using permissible interventions as is done in other EU members states.

The National Connectivity Task Force will be considering a number of areas including:

- European, UK and local slot allocation regulations, procedures and practices
- The role of the planning authorities to influence the operation of the European Slot Regulations through planning conditions
- Introductions of local rules to prioritise new airport capacity to new routes that support the hub
- Financial incentives for airlines to operate new routes that support the hub

In short there are a number of interim measures that could be legally implemented unilaterally or with government and/or airline support which would support the hub and assist with the targeted application of any new capacity should it become available. We would hope to engage further with the Commission and Government on these as the Task Force work progresses to see if we can agree a common agenda of potentially helpful interventions.

# Utilisation of existing airport capacity

### 3.1 Public Service Obligations

One of those is undoubtedly likely to be Public Service Obligations (PSOs). PSOs were designed for just such a purpose, in that the regulations allow the Government to safeguard slots for that route at an airport (the only occasion within the EU Slots Regime when a Government can directly intervene on the airport slot co-ordination process). However, we question the notion that PSOs can only be used to safeguard links between regions, rather than between specific airport pairs. The legal issues here are complicated, but we are keen to understand further the basis for the Commission's view on this as we suspect this narrow interpretation is not one the EU Commission would necessarily subscribe too. Indeed, evidence from other EU member states suggests PSO's have been used much more creatively than the DfT has hitherto been willing to sanction.

### 3.2 Other Market Interventions for Regional Airports

Provided it is in the context of additional capacity associated with a new runway at Heathrow, Heathrow would be willing to consider working with the Government, regional partners and airlines to help implement a range of additional measures that may help regional air connectivity. Some of these may be feasible to implement before a new runway is opened in 2025. The Regional Air Connectivity Fund is one example of this that we consider helpful provided it is targeted at smaller regional airports where routes are more marginal and time critical and does not result in any material market distortions until a new runway is built. Again this is an area we will ask the Task Force to look at in more detail.

### 3.3 Air Passenger Duty

Reforms to APD as it impacts domestic services is certainly an initiative we would support. The Commission questions whether it is legally possible to end the current practice of incurring an APD charge on each flight of a domestic return trip - the so-called 'double whammy' based on a 1998 reasoned opinion by the EU (and is not minded to question this judgment), we believe it should, and moreover it should consider alternative tax neutral structures which could address the clear discriminatory affect APD is having on regional air services in the UK. This will be an important component of any package of measures to improve access to a UK hub and make better use of existing regional airport capacity. Our contribution to this initiative will be to ask the Heathrow National Task Force to look at this issue in detail.

## 4 Support for Regional Airports

Beyond the foregoing, Heathrow will be willing to support any initiatives that would enable regional airports to better serve their markets that are within established state aid rules. So, for example, the use of Enterprise zones to encourage economic clusters to develop around regional airports and the use of smaller less congested facilities to encourage relocation of aviation related activities that larger more congested airports like Heathrow are unable to accommodate (e.g. military activity, training, long term MRO, aircraft teardown, air show and other heritage facilities, dedicated cargo, and business aviation).

# Utilisation of existing airport capacity

## 5 Conclusions

Regional airports have an important part to play in UK aviation, and by extension the national economy and society. Heathrow has engaged extensively with airports, businesses and stakeholders around the UK over the last three years. The importance of a UK national hub that connects the entire country to the world emerges strongly from these discussions. Relying solely on other hubs for long haul connectivity is risky, reduces UK economic benefits and market choice. Heathrow's proposals put real emphasis on this national role for the hub. As an immediate next step we have therefore established a National Connectivity Task Force to recommend practical ways to maximise the national benefits of a successful and growing hub airport.

Our findings therefore support the Airports Commission's view that a "concentrated" hub airport would deliver a wider range of routes - and hence better connectivity - than a "dispersed" hub or "system- based" option with two runways at both Heathrow and Gatwick. We suspect that the scale of the difference is greater than suggested in the Commission's Interim Report, since the modelling appears to assume that both airports operate as genuine hubs. Airline economics and business models make this is implausible. Gatwick themselves have backed away from the notion of developing a fully functional hub in their proposals. Thus if Gatwick were chosen as the site for expansion it might offer opportunities for additional regional point-to-point services from other parts of the UK, but substantially less onward connectivity would be available compared to a Heathrow hub. As Manchester illustrates, having two runways is not sufficient in itself to turn an airport into a global hub. With this in mind, we would request that the Commission revisit its modelling and test the underpinning assumptions on airlines' behaviour and attractiveness for passengers, bags and cargo particularly from the UK's regions, nations and Crown Dependencies.

Questions of long term airport capacity are uncertain and complex. The interactions across the national system of airports are even more so. However we believe the following can be assumed:

- regional airports will continue to be important and grow point to point traffic
- long haul connections will predominantly be through hubs for decades to come either as a UK hub or an overseas one
- all parts of the UK need access to existing and emerging overseas markets to drive growth and help to rebalance the UK economy
- connecting passengers and freight are essential to support long-haul air services and bring forward additional routes
- adding more UK hub capacity will provide more choice for UK regional airports.
- there will be fewer hubs competing for new routes to emerging inter-continental destinations
- national connectivity should be via a UK hub airport as opposed to a European hub as this money is better in the UK than overseas; decisions on service quality and connectivity will be determined by the UK's needs rather than other nation states.
- Heathrow is best placed to provide the global connectivity that the UK requires to compete.

# Utilisation of existing airport capacity

## APPENDIX A

## NATIONAL CONNECTIVITY TASK FORCE

### Terms of Reference

The role of the National Connectivity Task Force is to develop an in-depth understanding and associated evidence base of current and future requirements for enhanced transport connectivity to Heathrow Airport and the wider London and South East Region from each region, nation and Crown Dependency of the United Kingdom, with a view to making recommendations to Heathrow Airports Ltd (HAL) and its key stakeholders about:

- the 'regional access' enhancements that should accompany its proposals to build a third runway – both before and after its completion;
- the measures that are required to ensure that these are optimized to the benefit of the economies of regions concerned, the development of a 'globally' competitive hub operation, the airport's commercial partners and users and its neighbours and wider stakeholders; and
- the timetable for their implementation.

In so doing, the Task Force is expected to:

- commission a comprehensive programme of research and analysis, and engage with a wide range of relevant parties, in order to provide a transparent evidence base to underpin its recommendations to the Airport's shareholders and customers, the Airports Commission, the UK Government and to both local and regional stakeholder interests;
- outline the financial, economic and environmental costs of implementing the recommended measures;
- highlight the key partners – public and private, local and national – whose co-operation will be required to ensure their delivery and assess the extent to which they are likely to be willing to do so;
- identify the key risks that could impact on delivery and how these best be mitigated; and
- evaluate the extent of support and opposition for its proposals.

The National Connectivity Task Force board will comprise:

- A Chair appointed by Heathrow Airport Ltd
- 13 Task Force members drawn from academia/think tanks, the industry (x3) and UK regions (x7) for their relevant knowledge and expertise
- a Heathrow representative drawn from its senior management team.

It will be serviced by a Secretariat and supporting expert consultants, overseen by the Chair and an Internal Management Team reporting to Heathrow's Director of Policy and Government Relations.

The Chair and members of the Task Force will not be paid for their participation but reasonable travel and accommodation expenses will be paid for by Heathrow through the Task Force Secretariat.

In undertaking its work it is expected to have regard to:

- The Airports Commission's Appraisal Framework requirements relating to regional connectivity and impacts
- Relevant commitments made by Heathrow Airport (including the setting up of the Task Force) in its Stage 2 Submission to the Airports Commission

# Utilisation of existing airport capacity

The Task Force Board is expected to meet formally 4-6 times during its term, although sub groups may meet additionally on particular issues. It intends to meet in early September to outline the scope of its work, its programme and to invite representations. It may also seek meetings with external interests as required and will be expected to keep the Airports Commission and Department for Transport officials appraised of its progress.

The Task Force is expected to present its report and recommendations to HAL's Board by the end of 2014. HAL will then present the report and its response to the Airports Commission early in the New Year.

July 2014