



# **Airports Commission Discussion Paper 6: Utilisation of the UK's Existing Airport Capacity**

## **M.A.G Response**

**July 2014**

## Introduction

Manchester Airports Group (M.A.G) welcomes the opportunity to respond to the Discussion Paper, *Utilisation of the UK's Existing Airport Capacity*. M.A.G owns and operates four airports in the UK (Manchester, London Stansted, East Midlands and Bournemouth) and handles some 44 million passengers per annum.

Our airports contribute more than £3.5bn to the UK economy and support over 100,000 jobs. The group's activities cover air traffic services, car parking, retail concession management, airport security services, firefighting, engineering and property development. M.A.G is owned by the ten local authorities of Greater Manchester, in partnership with global investment manager IFM.

Our response to the discussion paper is structured as follows:

- Part A provides a summary of our views on the key issues raised by the discussion paper, identifying the main areas where we believe the Commission should focus its work to develop clear recommendations to Government on the utilisation of the UK's existing airport capacity; and
- Part B then sets out our responses to the individual questions posed by the Commission, following the structure set out in the discussion paper.

## **PART A - Overview**

### ***The Commission's focus***

M.A.G welcomes the opportunity to participate in the consultation on *Utilisation of the UK's Existing Airport Capacity*. Given that new runway capacity is likely to be at least 10-15 years away, exploring measures that can be taken in the interim should be a key priority.

We agree with the Airports Commission (the Commission) that airports that have not been shortlisted will play a crucial role in meeting UK-wide demand for air travel; indeed we believe this should be one of the central considerations for the Commission's Final Report. Ensuring that everything that can be done to maximise the use of existing capacity is being done is both a responsible and sustainable approach, and should be the first priority in any long term airports policy.

M.A.G would urge the Commission to consider making use of capacity at other airports as a primary issue, rather than something of second order importance. Government policy should set out a clear plan for maximising the use of this existing capacity before a new runway is developed. To inform Government policy on this issue, the Commission should make specific long term recommendations on the actions that are needed to ensure that national policy reflects a responsible and sustainable approach to development.

To date, the focus of the Commission has been to consider what can be done in the short term to maximise the use of this capacity. Its focus now needs to be on the long term policy that will result in existing capacity being used to its full potential.

A coherent airports policy is one that addresses how to maximise the utilisation of existing capacity at the UK's airports, not just policy on when and where new runway capacity is needed. It would be the wrong approach for the Commission to think of these issues as simply informing the context for its recommendations on the location of new runway capacity. The Commission's work would be incomplete and unbalanced if these issues are not properly addressed and set within the context of a coherent airports policy and an integrated transport policy.

The remainder of Part A covers:

- Primary and secondary airports;
- The value of existing capacity;
- Opportunities for regional airports: Manchester, Stansted and East Midlands
- Support for regional airports;
- A truly integrated transport policy; and
- Next steps.

### *Primary and secondary airports*

The Discussion Paper 6 does not define what is meant by a 'regional airport'. Instead, it uses the term interchangeably with non-London airports. This has the effect of creating a 'one size fits all' approach, whereby 'regional airports' range from Manchester, the UK's third largest, to the very smallest aerodromes.

Manchester Airport is more than twice the size of any other airport outside London. With 18 and 21 million passengers respectively, Stansted and Manchester rank alongside the likes of Dublin, Stockholm and Lisbon in terms of passengers handled. It is not appropriate to consider Manchester and Stansted in the same category as the smallest airports - to do so vastly understates the contribution they make to providing international connectivity and to the UK more generally. Further work is required by the Commission to ensure its recommendations to Government are informed by an in-depth understanding of the specific issues for each of the largest regional airports.

A more appropriate categorisation would be to think of UK airports in terms of 'primary' and 'secondary' airports (both on the passenger and freight side). Airports that play a primary role in providing connectivity, whether for passengers or freight, could then be prioritised for national policy support, in line with their role as strategic international gateways.

Over the long term, primary airports are likely to attract an increasing share of national demand. At the same time, those airports serving local and regional catchments will continue to grow but will do so at a lower rate. This process will benefit passengers using primary airports as they gain access to a wider network of destinations and frequencies, reflecting airline preferences for consolidating services at a smaller number of airports.

Improved surface connectivity – particularly high speed rail – will serve to accelerate this process, extending catchments in different directions to increase the number people living within a reasonable journey time of a range of different airports. With access to larger catchments, primary airports will generally be able to support services to more destinations, with greater frequency than they do today. Improving global connectivity for people and businesses across the UK would have substantial economic and social benefits.

### *Value of existing airport capacity*

Runway capacity available at existing airports is well in excess of that being considered at the shortlisted sites. For example, Stansted's single runway will eventually grow to handle some 40-45 million passengers per annum (mppa), an increase of around 25mppa on current throughput. At Manchester, the capacity of the two runways could grow to as much as 60mppa, an increase of almost 40mppa. Taken together, around 65mppa of additional capacity could be achieved from these existing runways alone, broadly equivalent to an airport the size of Heathrow. It is also significantly more than the incremental capacity that could be realised from a new runway at either Heathrow or Gatwick, or even four or five new runways in the Thames Estuary.

To be clear, we do not advocate the use policy measures to forcibly redistribute traffic either around London's airports, or between London and the rest of the UK. Nor do we believe that making full use of existing capacity would obviate the need for new capacity. Instead, we see

significant potential for primary airports in general to play a more prominent role in meeting demand, principally by serving a greater share of the demand from their own catchments. The scale of the opportunity outlined above highlights the importance of ensuring Government policy supports using this capacity to its full potential.

### **Opportunities for 'regional' airports**

The UK's regional airports play a vital economic role in the regions that they serve, both in their own right as employers and wealth creators, and in enabling local businesses to grow and develop. M.A.G airports contribute £4bn to the national economy and directly support around 45,000 on-site jobs.

Chapter 1 of the Commission's Discussion Paper describes the non-London airports as 'something of a mixed blessing' and implies that their connectivity is only as good as their links to Heathrow. This is emphatically not the case. We believe that when it comes to the non-shortlisted airports, the Commission's starting point should be to consider how best to promote and maximise their use, not simply to "understand the long term strategic context within which the eventual expansion option is likely to sit." The Commission must ensure that its Final Report includes recommendations for an updated National Policy Statement, including recommendations that apply to the non-shortlisted sites.

### **Manchester**

Major regional airports like Manchester offer significant opportunities for the UK. As its route network shows, Manchester is large enough today to provide the critical mass to serve intercontinental destinations either direct, or indirect via overseas hubs. This gives passengers outside the South East an alternative to hubbing over Heathrow and the choice of flying from a local airport.

Supporting the development of long haul services from airports like Manchester will help stimulate regional growth, and relieve pressure on the congested London airports by ensuring regional airports serve a higher proportion of the demand that comes from their extended catchments. This is an urgent priority for Manchester given that it already has a substantial network of long haul services, a strong catchment (some 22 million people live within a two-hour drive time) and significant room to grow.

The Commission must give further consideration to how its recommendations and subsequent policy could capitalise on Manchester's potential as a primary airport. In particular, a truly integrated approach which brought together high speed rail and airport capacity would fully exploit Manchester's contribution to meeting UK demand for air travel. Enhanced high speed rail connectivity will have the effect of shrinking the size of the UK and create valuable new options for meeting the country's airport capacity needs. For example, connecting Manchester Airport to HS2 and HS3 will make the airport accessible to a substantial proportion of the UK's population. With better rail connectivity to key population centres, Manchester Airport will develop services to a wider network of global destinations, which in turn will strengthen the region's attractiveness as a place to live, work and invest.

For this reason it is important that Government policy supports an integrated approach to infrastructure planning. Consideration of these issues has so far not been a prominent part of

the Commission's analysis. As a consequence, there is a risk that the its recommendations will fail to recognise the real opportunities for airports like Manchester Airport to play a bigger role in meeting the UK demand for air travel and connectivity, and for integrated transport infrastructure to drive economic growth in the North and contribute to a rebalancing of the UK's economy.

#### ***Full use of Stansted's existing runway***

In the intervening period before any new runways are built in the South East, it is vital the Commission recommends that the Government makes full and efficient use of Stansted's available capacity. In this submission we have identified two specific policy measures that will support Stansted in playing its full part in meeting demand, namely Government policy support for making full use of existing capacity and improved rail connectivity to the airport.

With regards to making full use of Stansted's existing capacity, we urge the Commission to follow through on its commitment to examine the lifting or removal of Stansted's caps as part of its Phase 2 work to enable it to make specific recommendations to Government. This course of action was discussed at the Commission's internal meeting on 25 November 2013, whereby the Commission *'agreed that it would look at the case for making the best use of the existing runway (including raising the planning cap) in Phase 2.'* To inform its recommendations to Government, we would encourage the Commission to establish a clear work programme to address this issue as soon as possible.

On improved rail connectivity, Government dealt with the Commission's recommendation for an urgent study by asking Network Rail to examine these issues as part of the four-year process leading to its next control period settlement (CP6). This approach lacks the urgency that the Commission called for and we have taken steps with DfT, Network Rail and TfL to accelerate the technical work needed to identify the most appropriate package of enhancements. Once this work has been completed, we would like to see early commitment from Government and Network Rail to funding preparatory and enabling works, so that a major enhancement scheme can be delivered as soon as possible in CP6 in 2019.

In our view, these rail enhancements should be an integral part of the Government's airports policy, and we would encourage the Commission to develop specific recommendations to highlight the importance of achieving improvements to Stansted's connectivity as part of its Final Report. This will make clear to Government the need for it to adopt a wider integrated approach to achieving its objectives.

#### ***East Midlands Airport – a national air freight hub***

East Midlands Airport (EMA) plays a nationally significant role in providing air freight capacity, connecting UK businesses to global markets. The airport is the UK's largest pure freight operation and home to express air freight operators DHL, UPS, Royal Mail and TNT. Together, the airport and these operators facilitate trade between the UK and international markets in an efficient and cost effective way.

The vast majority of express freight is transported overnight, in time for next-day delivery. By day, EMA is home to a significant passenger operation, connecting the major cities of Nottingham, Leicester and Derby and their surrounding areas to business and leisure

destinations across Europe. Together, the freight and passenger operations combine to make highly effective use of the runway and airport infrastructure.

Just as the Commission is considering the steps needed to maintain the UK's leading position in the passenger market, it should also give due consideration to the policy measures needed to ensure that the UK's airports have the necessary air freight capacity to support future economic growth and the associated growth in trade and commerce.

Government has a clear role to play in setting out a policy framework that provides clear support for the development of air freight capacity, in recognition of the wider economic benefits that this will bring. In particular, EMA's nationally significant role in facilitating UK trade should be recognised and supported by Government policy. This will provide stability and confidence not only to operators investing in the airport, but also to companies considering investment in the UK more generally.

### *Supporting regional airports*

Apart from Heathrow and Gatwick, UK airports operate in a highly competitive environment. The strength of this competition has intensified over the last decade as airlines, particularly low cost carriers (LCCs), have placed greater emphasis on reducing their own costs as a way of gaining advantage over their competitors. In addition, airports increasingly compete with other airports across Europe to attract airlines to add new capacity. Passengers have benefitted enormously from this competitive environment, in terms of service quality, choice and price.

Strong competition in the UK airport sector will continue to benefit passengers and is likely to involve constant change in the distribution of growth between different airports, creating financial challenges for some. However, Government should exercise caution when considering any intervention to avoid creating distortions into a highly competitive market. Although there is likely to be some consolidation in the UK airports market, this does not mean that the market will become less competitive. In fact, some consolidation is likely to lead to a more competitive market and an improved outcome for passengers, as fewer larger airports offer stronger competing networks of routes and frequencies.

The new 2012 Civil Aviation Act focuses on promoting competition as the best way of delivering for airlines and passengers, placing the emphasis on the passenger as the end user. M.A.G agrees that passengers will be best served by promoting airport competition within a regulatory framework overseen by the CAA, and that market interventions involving state aid should be used only as a last resort to avoid introducing competitive distortions.

In Part B, we identify a range of practical measures which would support the non-shortlisted airports, such as surface access enhancements, Open Skies, APD reform and state aid. These measures would offer effective support to airports seeking to maximise the use of existing capacity. With APD in particular, we see a clear opportunity to encourage game-changing new long haul services, exploiting the huge opportunity for Manchester Airport to serve a greater share of the demand in its catchment. We do not accept the Commission's conclusion that using APD in this way would be too difficult, as set out in Part B below.

### High Speed Rail

The UK's primary airports (Heathrow, Gatwick, Manchester and Stansted) all need high quality connectivity to the rail network, both to serve their regions effectively and to compete on a more equitable basis.

We recognise that the Commission has narrowed its focus to the period to 2030. However, it remains the case that little emphasis has been placed on the opportunities that HS2 affords to the airports outside the South East, especially Manchester. HS2 does not negate or displace the need for additional runway capacity. But longer term, HS2 has the potential to enable Manchester Airport to widen and better penetrate its catchment. At the very least, the Commission should be open to exploring this opportunity and understanding the wider options, and their implications, for how UK demand for air travel could be met.

Longer term, the Chancellor's recent comments about HS3 also represent a significant opportunity for the northern cities to create an integrated network that would deliver better regional connectivity and improved access to international markets. The potential exists for Manchester Airport to sit at the very heart of a cross-country high speed rail network, linking north and south, east and west. Bringing together the economies of these cities would increase productivity and support Manchester Airport in developing a wider network of destinations and frequencies.

The opportunities afforded by quick and reliable public transport are significant for the whole of the north of England, with the potential for a Northern 'powerhouse' to rebalance the UK economy. Such a development could pave the way for significant growth at Manchester Airport. Whilst the project is a long term vision, there appears to be political consensus on the need for progress in this area and we would encourage the Commission to re-examine the opportunity presented by such a project and assess the implications for its recommendations to Government.

### Next steps

In summary, the Commission must make recommendations to Government on a range of issues to ensure there is a coherent airports policy, not just policy on when and where new runway capacity is needed.

Ensuring that everything that can be done to maximise the use of existing capacity is being done is both a responsible and sustainable approach. It should be the first priority in any long term airports policy. It would be the wrong approach for the Commission to think of these issues as simply informing the context for its recommendations on the location of new runway capacity.

As a starting point, the Commission should continue to promote the *urgency* of actions to make best use of capacity, such as improved rail links from Central London to Stansted, changes to the structure of APD, and recommendations on the need for policy to support the lifting or removal of the artificial planning caps at Stansted.

These have the potential to create substantial benefits for passengers and the economy much more quickly, and with much less impact and risk than the proposals the Commission is considering for new runway capacity in the South East.

These must be at the centre of the Commission's recommendations and the first objective for any future Government policy on aviation.

## PART B

### Questions on the role that non-London airports currently play in providing connectivity and utility to the UK

#### Overview

As outlined above, the Discussion Paper does not adequately distinguish between different categories of non-London airports. Such thinking has resulted in a line of questioning which assumes that regional airports (as a homogenous group) are primarily concerned with linking into onward global connectivity via London Heathrow. This is not the case. The discussion paper fails to examine in any detail the future potential of major regional airports to provide direct and indirect connectivity for passengers outside the South East. This is an important gap in the Commission's analysis.

At Manchester Airport, while we value our links to Heathrow, our first priority is to serve destinations directly, as passengers have strong preferences to be able to reach their destinations without transferring at another airport<sup>1</sup>. Direct services provide the greatest economic benefit for the North West region and create the most sustainable network of services from the airport.

Analysis of CAA data shows that around 4 million passengers a year from Manchester's catchment area 'leak' to the London airports to catch flights. We are keen to reverse this trend by giving passengers the option to fly from their local airport which will reduce the pressure on airport capacity in the South East. To support this, we have been running a 'Fly Manchester' campaign to promote the fact that most global destinations can be reached non-stop or one-stop from Manchester<sup>2</sup>.

We regard it as a positive that passengers have a choice of global hubs offering onward connectivity, because this brings greater competition that will drive innovation, lower fares and greater choice. Evidence produced by PWC for the Commission shows that airfares from congested airports such as Heathrow are significantly higher than those available from other airports. For this reason alone, it is important that passengers outside the South East have effective access to a range of other airports that can provide direct or indirect connectivity in the most cost-effective way.

In this respect, passengers starting their journey in Manchester have a wide choice of US, continental, Middle Eastern and Far Eastern hubs<sup>3</sup> (from December 2014, Hong Kong), *as well as* Heathrow. The services from Manchester are successful because they provide passengers with direct and indirect access to long haul destinations, and there is clear evidence to suggest that the majority of passengers strongly prefer the superior service they provide.

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<sup>1</sup> Of the top 100 long haul O&D routes that can be reached directly from Manchester (2013), 80% of passengers chose to use the direct service, versus 20% flying indirectly.

<sup>2</sup> The 'Fly Manchester' campaign was launched in 2013 and targeted passenger volumes lost to London airports and regional airports. Over the last two years, leakage to Heathrow and Gatwick, as a proportion of all passengers from the Manchester catchment area, has reduced by 1% down to 11.7%

<sup>3</sup> In addition to Manchester-Singapore services, from December 2014 Cathay Pacific will operate a new Manchester-Hong Kong service.

The Commission must not assume that long haul services from regional airports exist simply because of capacity constraints at some London airports. This fallacy is clearly demonstrated by the considerable success that airlines such as Emirates, Etihad and Qatar have had in reshaping long haul air travel within Europe. For example, in a recent Financial Times article,<sup>4</sup> the outgoing Chief Executive of Lufthansa described the competitive battle his airline has with Emirates for long haul passengers from Portugal. Compared to a decade ago, when many passengers from Portugal flew to Asian destinations through the Lufthansa network, an increasing number now opt to use Emirates services to connect through the Middle East. The German airports in question do not have capacity constraints, so it is clear that passengers choose these services simply because they offer a better combination of price and service. The same is true across the UK where passengers are opting for services that avoid Heathrow, not because it is full, but because they have better alternatives. In our view, this reshaping of the UK and European long haul market will continue irrespective of whether new capacity is provided in London.

In terms of the CAA's three prerequisites for significant growth in long haul networks<sup>5</sup>, Manchester scores highly on all counts. First, the airport sits within a large and densely populated catchment area in the North West. Second, it has the propensity to generate a high volume of premium class traffic as already demonstrated on existing long haul routes. Third, network airlines operating from Manchester successfully supplement origin and destination (O&D) demand with connecting passengers who use their overseas hubs reach long haul destinations. Taken together, these factors have driven the development of a strong long haul network at Manchester.

Looking forward, we believe there are strong prospects for further significant growth in Manchester's long haul network. These prospects will be further strengthened by investment in better surface connectivity to the airport which will have the effect of broadening the airport's catchment for long haul services and reducing the degree of leakage of passengers to London airports.

The Commission is tasked with recommending steps to maintain the UK's global hub status. However, it should not assume that the primary objective for all UK passengers is access to Heathrow or another London airport. The Commission should explore how to develop *overall* UK connectivity, including via other hubs, rather than seeking to pursue connectivity to London as a primary goal in its own right.

### **Current provision**

In terms of access to London, we limit our comments to the regions in which we operate. Of these, Bournemouth, East Midlands and Stansted are too close to London for air services to be viable, leaving only the North West region.

Services to London from Manchester currently operate to Heathrow only. In previous years Manchester has had routes to Stansted, Gatwick and London City. This reduction in services has been driven by a number of variables, including pressure on slots at Heathrow and

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<sup>4</sup> Financial Times, 25th March 2014, "Departing Lufthansa chief warns of threat posed by Gulf airlines"

<sup>5</sup> As identified in the Airports Commission Discussion Paper p17-18

Gatwick, airlines switching capacity to more profitable routes and material improvements to rail services on the West Coast Main line.

The Manchester to Heathrow route is well served. There are 60 British Airways services per week (8-9 per day) and three daily 'Little Red' services operated by Virgin (started in 2013). Following the demise of BMI, the Little Red service was introduced primarily to feed Virgin's Heathrow long haul network with passengers from Manchester. Around 60% of the passengers on Manchester-Heathrow services use them to connect to other services.

The Commission asks whether connectivity between London and the regions is at an appropriate level. As explained above, this question should not be the Commission's primary focus. Access to global connectivity from the regions is not just an issue of access to Heathrow, nor should the Commission presume that the growth in connections from the UK regions to alternative hubs weakens the UK's hub status. Passengers from the regions value the choice, competition and service offered by alternative carriers connecting over alternative hubs.

At Manchester, the growth in long haul connectivity via Middle Eastern hubs has been incredibly positive for the region, bringing intercontinental access to the 22 million passengers within our catchment. Since 2004, scheduled long haul traffic at Manchester has grown from 2.4mppa to 3.5mppa, 80% of which is attributed to the growth of the Middle East carriers.

Manchester now has three daily services to Dubai (including an A380 service), two daily to Abu Dhabi and ten services per week to Doha. Those carriers are not serving Manchester simply because they cannot get into Heathrow. As Etihad CEO James Hogan put it in 2012, Etihad "was in Manchester for the long haul"<sup>6</sup>. We have seen significant growth in scheduled long haul services in the last decade, particularly from the Middle East carriers.

As well as providing long haul connections, the Middle East carriers have invested in the North West region. Both Emirates and Etihad have based their European Call Centres close to the airport and the routes have been a catalyst for significant inward investment.

### **Recent trends**

Manchester has seen a steady decline in connectivity and traffic on services to London over the last ten years. For example, the volume of scheduled traffic between Manchester and London airports has fallen at an average of 10% per year since 2006, with seat capacity declining slightly less at an average of 8% per year. The volume of O&D traffic on these routes has fallen at an average of 21% per year since 2009. This corresponds with the broad regional trends identified by the Commission's discussion paper.

From the London end, Stansted has also seen a significant decline in domestic traffic volumes to the UK's regions, having fallen at an average of 12% per year since 2006.

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<sup>6</sup> Guardian, British airports under threat from rise of Gulf hubs, says Etihad boss, 29 July 2012

Stansted now only has scheduled services to seven UK airports, but served as many as 13 domestic destinations in 2006.

### **Future trends**

At Manchester, we do not expect any significant increase in capacity on London routes. With a reliable train service between the London and Manchester city centres, any increase in traffic is likely to come from organic growth in onward connections via Heathrow, rather than point to point services. It is possible that services to Gatwick and Stansted could recommence, but we do not expect any substantial capacity increase to London from Manchester.

At Stansted, it is likely that domestic traffic will increase over time as new routes come on board (such as the new Stansted-Dundee service). It is also possible that airlines could develop connecting services over Stansted, perhaps with LCCs feeding into long haul services. However, increases in domestic traffic are likely to be largely O&D traffic rather than passengers using Stansted to connect to other services.

Elsewhere, we do not envisage that non-London domestic air connectivity will vary significantly from the current position. Where travel is over water, or a road/rail journey means that flying saves more than 20% of total door-door journey time, growth is likely to be broadly in line with the total UK air transport market.

Improvements in rail service frequency, reduced journey times, more competitive rail fares and – to some extent – capacity increases between UK regional cities will continue to offer stronger competition to domestic air services and could serve to reduce air passenger volumes, especially for point to point business travel. In terms of purpose of travel, M.A.G would argue that business travel has not decreased in real terms – only in proportion to other reasons for travel, primarily the rise in VFR.

Overall, we broadly agree with the Commission's analysis of connectivity provided by non-London airports. In later questions we explore recommendations the Commission could make to support traffic growth at regional airports and make best use of existing capacity, such as a temporary exemption for APD on long haul services.

### **Questions on how the business models of non-London airports are changing, and how they can be expected to change further in time.**

#### **Smaller airports**

We agree with the Commission's assessment that smaller airports in the UK face specific financial challenges, mainly as a result of significant competition with other airports and a business model that is dominated by fixed costs.

Apart from Heathrow and Gatwick, UK airports operate in a highly competitive environment. The Commission's analysis highlights that 70% of the UK's population live within two hours journey time of more than two airports with a throughput in excess of 5mppa. Where catchments overlap, airports compete directly with each other on price and quality to attract

passengers and airlines. The strength of this competition has intensified over the last decade as airlines, particularly LCCs, have placed greater emphasis on reducing their own cost base as a way of gaining competitive advantage over other airlines.

In addition to this 'direct' competition, airports increasingly compete with airports right across Europe to attract airlines to add new capacity. Ryanair and easyJet in particular make a point of highlighting that the flexibility of their business model allows them to optimise profitability across a European portfolio of routes. This means that airports in the UK regions could be competing against airports in Spain or Italy for example, to secure a new based aircraft from LCCs.

This highly competitive UK airports sector brings financial challenges for all non-regulated airports. Regulated airports with market power generally have the ability to pass higher costs through to airlines in the form of higher charges. However, airports without market power find this more difficult and often have to absorb increases in costs, rather than pass them on to airlines. In some cases, airports have long term commercial agreements with airlines that explicitly prevent costs increases from being passed on to airlines.

Airports have a high percentage of fixed-costs which means that costs remain relatively static as passenger volumes rise and fall. As passenger volumes fall, revenues from airport charges and commercial activities fall by broadly the same percentage. By contrast, the high proportion of fixed costs means that overall costs do not fall significantly as passenger numbers decline. This relationship between passenger volumes, operating costs and revenues can create significant financial pressures on airports in term of profitability. These pressures can be particularly acute at smaller airports, where the loss of a route or a based aircraft can have a disproportionate impact on volumes and revenues.

Added to these cost pressures, there are a number of commercial factors that create challenges for smaller airports. In particular, airlines generally prefer to focus their operations at a small number of bases, rather than spread them thinly across a large number of airports. As such, airline capacity growth over the last ten years has tended to be concentrated on a relatively small number of airports.

The discussion paper also identifies the commercial challenges faced by smaller airports as a result of their weaker ability to generate retail and ancillary revenues. In general terms, as passenger throughput increases, airports can attract a wider range of retailers, food and beverage outlets and onward travel providers. As a consequence, larger airports will typically generate higher commercial revenues per passenger than smaller airports because they offer greater choice and variety. M.A.G has invested significantly in providing improved customer service at its airports and enhancing the quality of outlets available in its departure lounges; these initiatives have had a strong positive impact on commercial revenues.

Taken together, these factors point to the likelihood of some further consolidation in the UK airports market. We would expect national and local Government to examine the employment and connectivity implications of any potential airport closure. For example, it may be that alternative air services are available at neighbouring airports, or that there are effective surface access links to alternative airports.

The Government should exercise caution when considering any intervention, to ensure that a) public funding is not used to support an airport which is not ultimately commercially viable and b) to avoid introducing distortions into a highly competitive market.

### **Future trends**

The discussion paper asks about the appropriate or ideal 'future shape' for the UK airports system. In our view, there is little to be gained from seeking to predict how the competitive airports markets will evolve to meet changing consumer needs, and what types of airports will exist in the future. In our view, the best way to ensure airports adapt to meet the needs of consumers is to ensure the airport market remains highly competitive.

Although there is likely to be some consolidation in the UK airports market, this does not mean that the market will become less competitive. In fact, consolidation is likely to lead to larger airports developing stronger competing networks of routes and frequencies which will have significant benefits for passengers.

The 2012 Civil Aviation Act focuses on promoting competition as the best way of delivering for airlines and passengers, placing the emphasis on the passenger as the end user. M.A.G agrees that passengers will be best served by promoting airport competition within a regulatory framework overseen by the CAA.

### **Questions on how the connectivity provided by these airports can be enhanced, and on the options to intervene in this sector.**

#### **Overview**

Modern transport infrastructure has the potential to connect economies at all levels - locally, nationally and globally - and act as strong catalyst for economic development and inward investment. Enhanced high speed rail connectivity will have the effect of shrinking the size of the UK and create valuable new options for meeting the country's airport capacity needs. In particular, connecting Manchester Airport to HS2 and HS3 will make the airport accessible to a substantial proportion of the UK's population. The HS3 project on its own has the potential to bring together a population across northern cities equivalent to that of Greater London.

Just as important are the wider economic opportunities that will be created by integrating high speed rail and airport capacity. With better rail connectivity to key population centres, Manchester Airport will develop services to a wider network of global destinations, which in turn will strengthen the region's attractiveness as a place to live, work and invest. The full benefits of these projects will only be achieved by adopting an integrated approach to planning of major infrastructure programmes. For example, the full scale of benefits from HS1, HS2, HS3, and future aviation capacity will only be realised if these projects are conceived and delivered in a joined-up way. Similarly, a joined up approach is needed to maximise the benefits offered by the UK's premier air freight hub at East Midlands Airport, given the critical role it fulfils in providing global access to markets.

For this reason it is important that Government policy supports an integrated approach to infrastructure planning. Consideration of these issues has so far not been a prominent part of the Commission's analysis. As a consequence, there is a risk that the its recommendations will fail to recognise the real opportunities for airports like Manchester Airport to play a bigger role in meeting the UK demand for air travel and connectivity, and for integrated transport infrastructure to drive economic growth in the North and contribute to a rebalancing of the UK's economy.

The discussion paper identifies a number of options to support regional airports: state aid; PSOs; APD reform; targeted international tourism, Enterprise Zones; surface access and a supportive planning policy framework. In addition, a more liberal air services framework, in the form of an 'Open Skies' policy for regional airports would also have a beneficial impact.

We agree that initiatives such as Airport City and improved surface access will help make airports more attractive to airlines. For example, Chinese investment in Airport City at Manchester Airport helps reinforce the need for Manchester-China services when marketing the airport to Chinese airlines. Similarly, airlines pay significant attention to the quality of transport links when evaluating new routes and services. In this respect, we welcome the Commission's support for improved road and rail links to M.A.G airports in the short term.

#### ***East Midlands Airport: a national freight hub***

East Midlands Airport (EMA) connects both UK businesses and consumers to the global market. EMA generates around £239m of regional GVA and supports over 8,500 regional jobs. The East Midlands region is a major base for manufacturers in the UK, due to the proximity to the cargo connections that EMA provides – most of the UK is within 4 hours' trucking time of the airport.

EMA plays a dual role. By night, the airport operates as a national air freight hub, facilitating the overnight delivery of express cargo. By day, the airport is home to a significant passenger operation, connecting the major cities of Nottingham, Leicester and Derby and their surrounding areas to business and leisure destinations across Europe. In this way, EMA has an important role to play in providing increased international connectivity for businesses and individuals from within its catchment. Together, the freight and passenger operations at EMA combine to make highly effective use of the runway and airside infrastructure, and the complementary nature of these two sides of the business will be an important source of competitive advantage for the airport in the future.

EMA is the UK's largest pure freight airport and home to express air freight operators DHL, UPS and Royal Mail, who run secondary hub operations, along with TNT who run a smaller operation. EMA is a national freight hub, where goods fly in to be sorted for onward delivery to Europe and vice versa. These transshipments into the EMA hub help make a wider range of destinations viable from the UK, enhancing connectivity and trade opportunities.

UK business relies on the swift access to world markets that can only be provided by an express air freight hub. Next-day deliveries are part of 'just-in-time' production systems and reduce the high cost of warehousing and enable businesses to achieve rapid, time-definite delivery of high value goods and time sensitive documents across the world. It is no surprise

that companies like JCB and Toyota have chosen to locate their operations in close proximity to EMA to take advantage of the international freight connectivity that it provides.

The national freight hub at EMA is crucial in ensuring the continued competitiveness of UK business. Exporters from across the UK rely on rapid access to global markets provided by the international connectivity at EMA. It is vital that this important role is properly recognised and supported by the Commission in its recommendations, and by Government airports policy. We would encourage the Commission to take a fresh look at these issues to inform its final recommendations to Government. Further details of freight, and the important role played by EMA, are attached in Appendix A. EMA is also a sizeable passenger airport, linking over 4m passengers a year to domestic and international destinations.

### **State aid**

Given the significant benefits to UK consumers of a competitive airport sector, state aid should only be used in exceptional circumstances, to address a genuine market failure. As the Commission points out, there seems little appetite from the UK Government to support airport *infrastructure* in a privatised sector. For example, Transport Secretary Patrick McLoughlin told the Transport Select Committee last year that “I am not looking for ways of spending extra money on something provided by the private sector.” (February 2013)

Under EU guidelines, start-up aid for new *routes* may be permissible in limited circumstances. The Government has announced plans for a Regional Connectivity Fund to take advantage of this, but full details have yet to emerge. It is difficult to comment in detail on the impact of this initiative but we understand that to qualify, a new route would need to be from an airport with fewer than 3-5 million passengers, demonstrate sustainability in the long term, and avoid competitive distortion with existing services. This is likely to apply to a limited number of routes only. Moreover, the restrictions will make it difficult to fund routes to destinations outside the EU, meaning that ‘game changing’ new services to emerging economies would be unlikely to qualify. As such, the new fund is unlikely to have a significant impact on regional airports and their connectivity, given the likely constraints on its use and the limited funds made available by the Government.

### **Air Passenger Duty**

M.A.G has consistently argued that APD puts UK aviation at a significant competitive disadvantage with other EU countries. Few countries apply any aviation taxation, and UK rates are well in excess of the few that do. Whilst we welcome the changes announced in the Budget to narrow the bands to two, the level of APD remains unacceptably high.

In previous submissions we have made the case for a temporary exemption from Air Passenger Duty (APD) for new long haul services. This would involve no state subsidy (unlike the Regional Connectivity Fund), and as such the restrictions and concerns around state aid would not apply. Moreover, the incentive of a temporary exemption from APD would have a transformational impact on the attractiveness of new, economically significant long haul services from regional airports. The move could be introduced at zero cost to the Treasury, since the Exchequer currently receives no APD on services that do not operate. As the route becomes sustainable over time, it would have a positive revenue impact.

New long haul services carry a high degree of commercial risk for airlines, particularly during the early years of operation. Reducing APD rates during this period would help establish and sustain these new services, and make the routes significantly more attractive to airlines relative to other opportunities that are available to them. Airports compete on a global basis to attract airlines to operate new routes – Manchester Airport does not just compete with other UK airports, but with other airports across Europe. In 2010, Manchester lost out on a service to Kuala Lumpur (currently unserved from Manchester), when Air Asia X decided that Paris-Orly, with far lower rates of APD, would be a less risky proposition.

M.A.G works very hard to secure new routes and services, especially to long haul destinations. In our experience, one of the most effective ways to encourage airlines to start new services is to offer financial incentives, especially during the initial period of operation to help the airline while the route is being established. We believe that the Government should mirror this model, by introducing a temporary APD exemption for new long haul services from the UK. This would act as a significant spur to the development of UK long haul connectivity, especially to emerging economies such as China.

M.A.G and other UK airports commissioned independent analysis on the potential impact of suspending APD on new long haul routes. The report found that a suspension of APD – meaning that APD would be zero-rated on new long haul routes for a defined period of time – would have a significant positive impact in three main ways:

- it would bring forward in time the operation of long haul routes;
- it would boost load factors such that an airline could have greater confidence in meeting its targets for a route; and
- in cases where demand appears to be sufficient but an airline may have concerns about the average yields which could be achieved, suspending APD would boost the airline profitability of the route.

Once the routes are proven and the market has grown further in the intervening period, the report concludes that it should remain viable once APD is introduced. The report provides some case study examples of long haul routes which could be made viable more quickly or in the case of routes which are already viable and not yet operating, examples of routes where load factors or profitability could be given a boost. These include:

- Manchester – Beijing;
- Manchester – Bangkok; and
- Manchester – Hong Kong.

The Commission rejected the notion of a temporary APD holiday in its Interim Report, citing that there would be “substantial potential to game the system, for example via airlines switching between airports in the same regions of their origin and destination countries to ensure that they would always benefit from the holiday.” We recognise the need for effective guidelines to prevent airlines rotating routes from one airport to another to create ‘new’ services, simply to take advantage of the exemption. However, experience from the operation of Route Development Funds, referred to in the discussion paper, demonstrates that workable guidelines *can* be developed and implemented to achieve this.

We disagree with the Commission's assertion that in addressing the issue above the proposal "would run a substantial risk of being challenged on the basis that it was distorting competition by favouring particular routes in favour of others." The Route Development Fund introduced by the previous Government was designed to stimulate new routes and promote connectivity, and showed that it is possible to put non-discriminatory rules in place to avoid gaming by airlines. Route Development Funds were abandoned following EU concerns about state aid. However, a tax break (in the form of an exemption from APD) is not the same as state support, and would therefore not necessarily fall foul of EU guidelines. In our view, the rules would not be unduly discriminatory because they would serve important legitimate aims, namely increased connectivity and competition (in a market dominated by Heathrow) and support for increased economic activity across the UK.

The benefits from such a policy would be substantial. We believe that a temporary suspension of APD would be highly effective in stimulating growth in long haul connectivity, especially in the UK regions. The main advantages of this approach include:

- It mirrors a proven commercial strategy that airports have used effectively to drive substantial traffic growth and is highly likely to be effective in stimulating new long haul services;
- It would connect the UK to key emerging economies, as well as generating economic activity and attracting inward investment to the UK regions;
- There is no downside because it would have a minimal cost to Treasury - it does not receive any income on routes which don't yet exist, so forgoing revenue on new routes until they get established costs nothing; and
- It would support the delivery of the Government's key objective of making best use of existing capacity.

For this reason, we believe the Commission has dismissed the proposal for a temporary APD exemption for new long haul services too lightly and without due consideration. We would strongly encourage the Commission to look again at the proposal as part of its work on the utilisation of existing airport capacity as we firmly believe it will stimulate increased long haul connectivity and significant economic benefits across the UK's regions.

### **Questions on the constraints to developing further utility and connectivity at airports serving London and the South East, as well as how and by whom these constraints can be mitigated.**

The break-up of BAA's monopoly in the London airports market was completed just over a year ago (February 2013) and the full picture of how the London airports will develop in a competitive environment is still emerging. We believe that over time, competition between London's airports will lead to better outcomes for passengers, particularly those passengers within Stansted's catchment as we deliver a better customer experience, greater choice and a wider range of destinations and services.

### **Geographical constraints**

Since the acquisition of Stansted in February 2013, M.A.G has campaigned for infrastructure improvements on the West Anglia Mainline (WAML). As detailed in our 'Making Best Use' response (May 2013), the objective is to deliver a significant reduction in journey times and

improved punctuality on the Stansted Express and other non-airport services, particularly to Cambridge.

M.A.G welcomes the Commission's interim recommendation, subsequently included in the National Infrastructure Plan, for an urgent study to assess the options for enhancing Stansted rail services. However, we remain concerned that Network Rail's Anglia Route Study will not make recommendations, but will instead identify a wide range of 'options for funders' to begin prioritising projects for Network Rail's investment programme for Control Period 6 (CP6: 2019 - 2024). We believe this does not address the 'urgency' identified by the Commission, and misses the window of opportunity to secure commitment to major enhancements in CP6, including additional track capacity on the mainline.

In the intervening period before 2019, we believe that a portion of Network Rail's Journey Times Improvement Fund should be used to fund early enabling or preparatory works on the WAML which would help accelerate the delivery of major enhancements in CP6. The early works identified would include the replacement of level crossings on the WAML; line speed improvements north of Broxbourne; and safeguarding the land needed for a substantial WAML upgrade. These works would support making best use of available capacity at Stansted and deliver journey time benefits to all users in the short term; and act as a pre-requisite for a major enhancement of the WAML beyond 2019.

Substantial technical work has already been carried out by the Department, Network Rail and other stakeholders on the options for improving the WAML. With some limited updating, the analysis will establish the best approach to upgrading the infrastructure. We believe there is a strong business case for this investment, in view of the combined benefits of making better use of Stansted's capacity during a period when other airports will be highly constrained, the wider regenerative benefits of increased rail capacity on the line and the support it would provide to thriving economies in corridor from London to Cambridge. Improvements to the airport's rail services would make Stansted more accessible to the competitive London market; foster economic growth along the burgeoning London-Cambridge growth corridor and most importantly help make best use of runway capacity at the airport, at a time when runway capacity is in short supply in London and South East.

The Commission recommended improved rail access to Stansted as a matter of urgency, to help unlock its underused capacity. Investment in the WAML would also bring Stansted in line with existing Government-funded commitments to improve rail access to Heathrow and Gatwick. However, we are concerned that this urgency will be lost without early action from Government. We would like to see the Commission provide strong support for these improvements in its Final Report, in addition to any new runway capacity recommendations. The Final Report should be about UK connectivity as a whole.

Beyond the WAML, we support upgrading key sections of the A120 road between the airport and the ports of Harwich and Felixstowe to dual carriageway. This would significantly improve surface access to the airport from the east and unlock wider growth in the region.

### *Planning constraints*

The discussion paper raises the question of the relative merits for airport developments moving through the NSIP or the Town and Country Planning process for either developers or communities.

The NSIP process offers some degree of time certainty to both developers and communities, given that a programme of examination dates and thresholds for decisions exist for the process. Nevertheless, it is not a quick process and it consumes a considerable resource in both cost and working hours to navigate. It places substantial burden on developers very early in the process. Therefore there is a 'sliding scale' of cost versus time benefit to consider when evaluating benefits and disadvantages of the NSIP system.

The relative merits of the NSIP and the TCP will differ depending on whether the development involves a proposal to removal or alteration of a cap on use of an airport, or an expansion of an airport that would require significant new capacity related infrastructure, such as a new terminal or runway.

In the context of a planning cap alteration, the NSIP system is more likely to be a disadvantage to developers as the administrative burden of the system is likely to be far greater than the actual amount of technical work involved. For example, should the issue of a planning cap alteration depend on only a limited number of environmental or surface access issues, then an NSIP process would be cumbersome and the TCP approach would be much more suited to the balancing of the issues and planning merits of the application.

Further, if the removal of a planning cap is a balancing of specific environmental considerations against economic benefits and potential, and does not involve more fundamental land use considerations (that would be involved with major physical development) then the threshold for an NSIP could be considered as arbitrary at the present time. To qualify as an NSIP the development must involve a capacity increase of at least 10mppa or 10,000 cargo air transport movements. Consideration as to whether this threshold should be the same for limitations on use of existing infrastructure as with the development of new infrastructure is debateable.

It is not however simple to conclude that the TCP Act process is the 'better' alternative. This route can be slow itself, particularly where there is either local political pressure impacting on planning judgement or where the lack of technical expertise within the local council means that determination is delayed. The option of appeal for non-determination is an aggressive option for developers, and must take into account the wider public perception of such a move. Our belief is that long term infrastructure operators, like airports, should have long term stakeholder relationships and a partnership approach.

Finally, the overall perception of the NSIP process should be contrasted against that of the TCP process; are locally made decisions better? NSIP is a 'remote' process, immediately taking the decision making power away from local communities and the local authority, whereas the TCP route would always provide the opportunity for the local council to make a decision, before the lodging of any appeal. In our view, there are strong merits in decisions being taken locally wherever possible, where local circumstances can best be assessed and

judged. However, we recognise that this is not always possible, particularly where local political pressure prevent the proper consideration of development proposals.

The discussion paper then goes on to ask for views on how the NSIP or TCP could be improved. In our view, there needs to be an effective National Policy Statement (NPS) for airports if the NSIP process is going to have any real merit. Such an NPS should be framed in such a way as to set the policy framework for non-NSIP schemes; which in reality will still form the majority of developments at UK airports.

The policy objective should be to give a clear and supportive policy framework, deal with airport demand at the strategic level, and set out the key considerations that local authorities should consider in reaching decisions (while also having regard to NPPF). The lack of strategic direction in this regard is typically the main area of uncertainty when an airport schemes are determined under the Planning Act 2008. Simply put, the process is undermined without such a document, as the decision maker is left to weigh up all current local policy and other material considerations without guidance on national priorities, which results in significant uncertainty and delay.

The current Sustainable Aviation Framework is limited in its approach to planning policy and guidance to determining applications. The ever changing nature of the industry; already recognised by the Commission, and the need to often act swiftly to capture commercial opportunities means that local development plans which look more than 20 years ahead can often be out of date or overtaken by events. This could usefully be flagged in an NPS so that airport proposals do not fall foul of non-compliance with an out of date plan.

Resources available to local authorities need addressing in order for the TCP process to form a credible option. Variation or removal of conditions to planning permissions generates a fee of £195. This is not enough to support resources at local councils to enable sound and timely planning decisions to be reached.

### **Stansted planning caps**

Stansted is currently subject to planning caps that limit the airport's throughput to 35 million passengers and 264,000 air transport movements each year. We estimate that the full capacity of the airport's single runway is between 40-45 million passengers a year. The current planning caps will therefore need to be altered or removed to enable Stansted to reach the full capacity of the existing runway.

Our case for making best use of Stansted existing runway capacity was set out in our response to the Commission's 'Best Use' discussion paper in May 2013. The case presented in that response remains valid and our aspirations for the airport's growth are to ensure that the facilities and infrastructure are in place to maximise the capacity and efficiency of the airport.

We are currently carrying out a consultation with local and regional stakeholders on a draft Sustainable Development Plan (SDP) for Stansted which sets out how we expect the airport to develop to the full potential of its existing runway. The document comprises a suite of four separate plans that outline our draft proposals for Stansted, encompassing:

- a land use plan;
- an environmental plan;
- an economy and surface access plan; and
- a community plan.

The SDP sets out our view of how Stansted could continue to grow beyond its current planning caps to make full use of the existing runway and airport infrastructure. We estimate the full capacity of the single runway to be between 40-45 million passengers a year; the exact capacity will be a product of our future route network, the types of aircraft using the airport, and the spread of traffic through the day and year.

The analysis in the SDP shows how the airport can be developed to the full potential of its existing runway within the current land boundaries and its existing core infrastructure. Stansted is a large site and has been planned from the outset to accommodate growth within well-established parameters. Importantly, the analysis also demonstrates that it will be possible to accommodate growth within existing established environmental limits and within the capacity of the strategic road and rail network.

The Commission is aware of M.A.G's view that the Commission's forecasts significantly understate traffic growth at Stansted over the next twenty years. We welcome the Commission acknowledgement that its suite of traffic forecasting models is primarily intended to be used to inform views on the overall level of aggregate demand, rather than to forecast traffic levels at individual airports. M.A.G's forecasts for Stansted reflect the significant long-term commercial agreements that we have secured with Ryanair, easyJet and Thomas Cook. These agreements will generate growth significantly in excess of the levels indicated by the Commission's forecasts for Stansted over the next ten years. Beyond that, our forecasts are based on a detailed segmental analysis of long-term demand growth and capacity constraints within the London airports system.

Our current forecasts show that Stansted's passenger throughput will continue to rise over the next 20 years such that full use of the single runway will be reached in the early 2030s. These same forecasts show Stansted's throughput will reach 35mppa in the mid-2020s. The Commission's discussion paper asks whether there is a current case for lifting planning caps for any airports in the London and the South East. On the basis of Stansted's projected growth over the next ten years, there is no immediate need for Stansted to seek a lifting of the planning caps. However, we will initiate discussions with stakeholders on this issue as part of our current consultation so that we can explore different approaches to dealing with the planning caps.

Notwithstanding these discussions, there is a compelling case for the Commission to make specific recommendations to Government on the need for Government policy to support making the most effective use of existing capacity at Stansted. Government policy support will be important in making clear the specific need for policy to support this development, and to demonstrate how making full use of the existing runway fits within its overall policy framework. Although it may not be necessary to lift or remove the planning caps at Stansted in the immediate future, it is important for local and regional decision making that

Government policy provides a clear statement on the need to use Stansted's capacity to its full potential.

This approach would be consistent with the Commission's previous acknowledgement that its assessment of need indicates the importance of making optimum use of existing capacity over the intervening period before any new runway capacity in the South East comes into operation. We agree that making best use of the capacity available at Stansted is an important part of that, and we welcome the Commission's recognition that it would be appropriate for it to make recommendations to Government on this to inform the development of any future National Policy Statement.

The SDP provides clear evidence on the balance of impacts and benefits of making full use of Stansted existing runway capacity that can inform the Commission recommendations to Government on this issue. For example, our assessments show that the airport can grow from 35 mppa to the full capacity of the single runway without generating additional impacts over and above the existing established environmental limits and within the capacity of the strategic road and rail network.

The removal of the cap will maximise our ability to meet growth in demand and align the potential of the airport with the economic ambitions of the region. Specifically, the airport is a key vehicle for economic growth in the east of England, within the London, Stansted, Cambridge Corridor, the A120 Corridor and the west of Essex. Its role within the regional economic future is highlighted in several policy documents such as the prospectuses of the South East LEP and Greater Cambridge/Greater Peterborough LEP, the Essex County's Economic Plan for Essex, and in local plans prepared by, for example, Uttlesford District Council.

Expressed in broad terms, the relevant strategies consider that the location of Stansted will have a direct and substantial impact on the economic growth potential of the area and is a key economic asset with significant potential to catalyse growth. This includes growth in terms of on-site direct employment potential, as well as growth in major sectors such as life sciences, technology, tourism and logistics.

Thus, by enabling Stansted growth to the full potential of its existing runway, the airport can respond to the challenges identified by the regional and local strategies and we can strengthen our own position as an economic generator and gateway, as well as acting as a catalyst for the economic growth envisioned for the region and local communities. This can be illustrated in terms of its economic impacts, direct intervention and through achieving connectivity improvements.

We will keep the Commission updated on progress with the SDP public consultation process over the course of next few months, and submit the final version of the plan when it is finalised later this year.

### **Commercial constraints**

The quality of the passenger experience is critical to an airport's ability to compete against other airports to attract passengers and airlines. The current level of customer service

provided by the UK Border Force at our airports is having significant negative impact on the passenger experience. Passengers at both Manchester and Stansted are continuing to experience significant queues at immigration. These problems have been exacerbated by delays to the installation of the new e-gates and problems with their performance where they are operational.

It is apparent from the way passengers perceive the quality of immigration services at different airports that UKBF have prioritised resources towards certain airports over the last few years, to the detriment of service levels at other airports. To support the development of a competitive airport market, and to support airports in making the best possible use of their existing capacity, it will be important for the Government to ensure there is a level playing field in terms of the quality of immigration services provided by UKBF. The Commission should make recommendations to Government on this issue, identifying the importance of establishing competitive equivalence between airports.

An additional constraint on Stansted is its designation as one of the UK's hijack airports, which means that aircraft are often diverted to Stansted if there is a hijack or security alert. While we recognise the importance of this function to the UK's ability to respond appropriately to aircraft hijack situations, it is important for Government to acknowledge the service that Stansted provides in this respect and the potential operational disruption that could be caused as a result. This is a further instance where there needs to be competitive equivalence between London airports; currently only Stansted faces the potential risks or costs associated with the disruption caused by hijack incidents. For example, one hour closure of the runway to manage a diverted aircraft costs £66,000; a 24 hour closure costs around £825,000. While we are open to continuing as a designated airport, we believe Stansted should be fairly compensated for the risk and disruption to our airlines and passengers.

### ***Airspace constraints***

The discussion paper asks if there are any medium term airspace developments that could support making best use of capacity, beyond those set out in the Interim Report.

We are keen to see published continuous descent operation (CDO) criteria for runway 04 at Stansted. The introduction of a CDO would mitigate against the early reduction in height on approaches to runway 04, currently creating a noise nuisance due to prolonged segments of level flight at low altitude. The introduction of a CDO from a greater height rather than the current 6,000ft would also help mitigate and reduce the noise footprint from aircraft operations. This could be achieved far more easily for night time operations than daytime operations as the airspace is less congested.

Continuous climb operations (CCO) should also be introduced for all departures therefore alleviating the often elongated sections of level flight at low altitudes which are inefficient for operators and can create delay for passengers. As part of the London Airspace Management Programme (LAMP), NATS is currently undertaking a public consultation to change the use of the existing routes for departures to the east and south of Stansted. NATS is expected to reach a decision on these issues in Autumn 2014.

The discussion paper also asks whether there are any innovative long term airspace developments which could provide support beyond those set out in the Interim Report.

There are already a number of airspace developments and innovations underway in the South East, including the use of air navigation trials at Stansted. However, over the long term we believe it is important that projects like LAMP are designed around the future requirements of all airports in the South East.

### ***Regulatory, tax or constraints***

The discussion paper asks if there are any new data available that the Commission should review in reference to its conclusions on regulatory, tax or legal changes that could alter our assessment of their usefulness in making best use of capacity.

As outlined above, M.A.G believes that the Commission dismissed the proposal for a temporary APD exemption for new routes too lightly and without due consideration. We believe that the experience of the Air Services Development Fund demonstrates that it is possible to put a framework in place to prevent route 'churn' and perverse airline incentives. Further, we believe that such an exemption would not be unduly discriminatory given the legitimate aim of securing additional long haul connectivity and the associated economic benefits, as well as seeking to mitigate the dominant competitive position of Heathrow in the UK long haul market.

In addition, the Commission could usefully look at the role of government bodies like the Highways Agency or UKBF (see above). In the post-BAA environment, there is little transparency around how these agencies prioritise their time and resources in terms of UK airports. Our experience is that even though London's three main airports are competing, the machinery of government has failed to catch up, and Stansted is still treated as being of lower priority to Heathrow and Gatwick. The Commission should recommend that all UK airports are put on a competitive and equal footing.

### ***Impact of the Commission's Final Report***

The Commission asks whether there are any topics or areas of further study beyond those set out in the Appraisal Framework that would allow the Commission to understand the impact of development at Heathrow or Gatwick on the other London Airports.

As our previous submissions have highlighted, the Commission must give careful consideration of the role of state aid in providing new runway capacity. In a competitive market such as the UK airports sector, it would be inappropriate for the Government to spend public money on supporting airport development that benefitted one particular scheme over another, distorting the competitive market and harming private interests.

Linked to the issue of state aid, the Commission should also give careful consideration to the appropriate regulatory framework that should apply to investment in new runway capacity. In our recent response to the CAA's consultation on this issue, we emphasised the importance of the CAA maintaining a strong focus on competition issues as it considers the most appropriate way to regulate investment in new runway capacity. The CAA must remain alert to the potential for its own regulatory policy to disrupt and distort the recently

established competitive dynamic between the London airports - something that would itself have significant adverse on competition and hugely negative consequences for users.

We highlighted that the decision of the Competition Commission (CC) to require BAA to divest Stansted, Gatwick and Edinburgh has significantly strengthened airport competition in the UK and brought about positive changes in the way these airports are managed, through a wide variety of commercial and service innovations. The changes have already driven significant benefits for users. Traffic volumes at Stansted are now growing again, commercial relationships with key customers are positive and productive, and substantial investment is being carried out to improve customer satisfaction.

One of the CC's primary reasons for requiring the divestment of Stansted and Gatwick was to create competition in the planning and delivery of new capacity; the CC found that BAA's ownership of the three main London airports had had an adverse on competition in this crucial area. In the CC's view, users would benefit enormously from separate ownership because it would drive airports to compete to deliver new runway capacity.

We welcomed the CAA's intention to further the interests of users by 'delivering, as far as possible, an outcome that broadly approximates to that of a competitive market in the long-run'. In our view, the delivery of new runway capacity should reflect the outcome of a competitive process and reflect users' preferences in terms of timing, cost and quality. It would be inappropriate for the regulatory framework to provide artificial support for runway development, to the detriment of other airports seeking either to make full use of existing capacity or deliver new runway capacity of their own.

Put simply, airport and airline competition will be distorted if more favourable regulatory terms apply to the development and operation of new capacity, than those that apply to existing capacity (whether regulated or not). The regulatory framework should not insulate or protect an airport seeking to deliver new capacity from risks that it should properly face, particularly those risks that other airports face on an on-going basis.

Instead, the proper focus for the regulatory framework should be on addressing those issues that have the potential to impact adversely the delivery of proposals for new runway capacity. For example, it should be for the relevant airport operator, not the CAA, to seek agreement with Government on the treatment of costs incurred in taking forward runway proposals. Similarly it should be for the airport operator to address as far as possible the financial, cost, construction and demand risks associated with such projects. In our view, these are not central considerations for the CAA to address.

The Commission and the CAA should similarly be concerned by the potential for significant competitive distortions to be created by overt Government involvement in the delivery of new runway capacity. Indeed, it would be perverse for the Commission to have selected its shortlisted options for the second phase of its work based on commercial viability criteria, only for the Government to then provide direct financial support to enable the final option to be delivered. We will keep these issues under review and make representations to Government as necessary to ensure a competitive level-playing field is maintained. These

concerns also apply equally to the question of whether Government might have a role in providing financial assistance to address inter-generational issues.

In addition, the Commission needs to look at the impact of runway expansion in the South East on other UK airports. The picture is far more complex than the possibility of more regional links to London. For example, the Commission should conduct further work to assess the impact of the availability of additional capacity in the South East on long haul services from other regional points. In addition, the Commission should seek to assess to what extent airlines would want to consolidate capacity at London airports, and if what this would mean for connectivity outside the South East. Care should be taken when assessing public funding for road and rail schemes to support new runway capacity, to ensure that these do not simply exacerbate leakage to London from airports which have capacity to spare.

## Appendix A: Air Cargo

### Summary

- Connectivity and the development of a UK Hub is not just an issue for Heathrow and for the South East, indeed it is not simply just an issue for passenger transportation. Aviation and the transport by air of goods as well as passengers, is of national significance and economic importance. With air freight representing 43.3% of UK exports to countries outside of the EU by value in 2012 (according to HM Revenue and Customs), all regions of the UK need easy access to global air freight connectivity if they are to contribute to the Government's objectives of re-balancing the economy and promoting export-led growth.
- East Midlands Airport plays a national role as the UK's largest express freight hub, as well as being a key regional airport serving the Midlands and part of the East of England. Its cargo<sup>7</sup> activity is significant at a national, European and inter-continental level. In addition to being the 11th largest passenger airport in the UK with 4,334,117 passengers in 2013, East Midlands is the largest pure freight airport in the UK (266,968 tonnes in 2013) and one of the major European cargo airports. It is also the largest pure mail airport in the UK (30,131 tonnes in 2013) and the UK's leading airport for high value express freight. With operations by three of the major global freight integrators it serves both a wider regional and national hub role. The East Midlands is nationally significant for logistics and distribution services with a third of UK distribution floor-space in the region.
- East Midlands Airport benefits from excellent connectivity to the national road network and has direct access to the M1 and the A42 / M42. This is one element of its natural advantage in terms of attracting and developing cargo activity. It is uniquely positioned to enable the express freight operators to offer 'next day' deliveries to destinations across Europe, the United States, the Middle East and Africa from businesses across the Midlands and the North of England. In effect connecting the Midlands and UK businesses with the rest of the world, next-day deliveries have a huge economic value which is set to grow. The existing cargo infrastructure, excellent surface access connections and the network of express freight operators and services are unique and unlikely to be replicated elsewhere in the UK. In cargo terms, there is limited overlap with cargo activity in the South East which acts as a separate sub market from the rest of the UK.
- Stansted is the UK's 4<sup>th</sup> busiest passenger airport handling 17,852,393 passengers in 2013. It is a key gateway for the UK and it is the busiest point of entry for non-UK residents arriving by air. Stansted also has the highest volume of pure freight traffic at the London airports. 211,952 tonnes of freight and 24,707 tonnes of mail were carried in 2013. The airport's cargo activity helps connect London with the global marketplace and Stansted is a significant hub for express freight services in the South East. The express freight operation is anchored by the key express operators FedEx and UPS.

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<sup>7</sup> Cargo is generally defined as freight plus mail

## **The International Air Cargo Market**

The UK's international transport networks are essential for trade in both goods and services with international trade (average value of exports plus imports) representing 28% of UK GDP in 2006.<sup>8</sup> These networks provide access to a wide variety of goods from across the world and give UK business access to international markets. The UK is an economy that has been built on trade and international investment. Of the world's largest economies, the UK is one of the most globalised. This is expected to develop further as a result of economic growth in China, India, Russia and Brazil. Economic activity is now more globally mobile than ever before and for the UK to remain competitive there is a need to adjust to the rapidly changing environment and to build on its competitive advantages.

In 2013 UK airports handled some 2,469,856 tonnes<sup>9</sup> of cargo. Whilst the air cargo is a very small proportion of the UK total by weight, it is highly significant in terms of value. 36% of UK trade with non-EU countries by value is transported by air with a net mass of 0.6%. 43% of non-EU exports by value travel by air, representing a value of £63,461,922,779.<sup>10</sup> Heathrow is the UK's major cargo hub handling over half of the UK's air freight (1,422,939 tonnes in 2013<sup>11</sup>) and large quantities of air mail. Air cargo at Heathrow is almost all carried in the belly-holds of passenger aircraft. East Midlands is the UK's second busiest freight airport and the largest pure freight airport for freight carried in pure freighter aircraft. At Stansted almost all of the air cargo handled by the airport is carried in dedicated freighter aircraft.

Globally, the volume of cargo transported by air has increased dramatically over the past 30 years and although there has been a recent decline as a result of the economic down-turn, significant growth is expected to continue over the long-term. The increase in the global air freight market will be driven by an increasingly global economy, rapid economic growth in the Far East and South America and the increased liberalisation of world-trade. Globally the air cargo market is forecast to more than double over the next 20 years, compared with 2011 levels at an average 5.2% annual growth rate. Alongside this the number of aircraft in the freighter fleet will increase by more than 80% over the same time-frame.<sup>12</sup>

Air freight has a relatively high cost in relation to other modes. Because of this it is generally only used for certain types of goods. These tend to be those that are high value and low weight such as electronics and pharmaceuticals; or have a limited life-cycle such as perishables; and good that are process-critical such as medicines or machine parts that may have a limited intrinsic value, but are essential to business or manufacturing processes.

There are two types of cargo airline operating models; freight forwarders and express freight integrators. The freight forwarding model is the traditional one, used by the major scheduled airlines (both passenger and cargo). These carriers use both the cargo capacity in the holds

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<sup>8</sup> Office of National Statistics

<sup>9</sup> CAA UK Airport Statistics 2013

<sup>10</sup> UK HMRC 2012

<sup>11</sup> CAA UK Airport Statistics 2013

<sup>12</sup> Boeing Air Cargo Forecasts 2013

of passenger aircraft as well as dedicated freighter aircraft. The express freight integrators provide an express or next-day delivery service. These carriers mainly use dedicated freighter aircraft but also buy capacity on scheduled passenger aircraft. The express freight carriers are the major cargo operators at East Midlands and Stansted.

The express delivery industry's principal business is to provide value-added, door-to-door transport and deliveries of next-day or time-definite shipments to destinations across the world. The largest operators in Europe are DHL, FedEx, UPS and TNT (the so-called integrated carriers) and they offer a full door-to-door service from collection to a local service centre to an International Gateway then by air (via one or more flight sectors) to an International Gateway on another continent, by road to a local service centre and then doorstep delivery to the customer.

Typically the types of goods that are transported by the express freight operators are packages that are high-value and low weight, such as electrical components, small machine parts, documents pharmaceutical and medical products. These are goods that need to be transported quickly. The express freight operators have simplified and accelerated the process of transporting goods across the world. They provide easy collection and delivery along with sophisticated tracking systems. This brings a certainty of delivery to the customer allowing companies to reduce their inventories of spares, to save costs and to trade with confidence in overseas markets.

The express freight operators' air networks are designed to achieve a guaranteed speed of transport and maximum flexibility and resilience. This means that they utilise hub and spoke networks that are composed of:

- Main Hubs – The express freight operators typically have one main hub on each continent. Express freight that is being transported between continents will generally travel on a flight operated between two main hubs. This means that the majority of this freight will be transshipment freight i.e. cargo that is transiting through the airport to then be flown elsewhere. Generally the express freight operators' main hubs tend to be located outside capital cities or other main passenger hubs. For example DHL's main European hub is at Leipzig and in the USA at Cincinnati. East Midlands Airport provides daily services into DHL's main hub at Leipzig.
- Sub Hubs – In order to bring flexibility to the hub and spoke model, the express freight operators also use sub-hubs as an alternative to the network of gateway airports (see below). An express operator will usually have a small number of sub-hub airports on each continent. The sub-hub airport will typically handle freight that is transiting to / from the main hub on that continent, but it will also receive freight from hubs or sub-hubs on other continents. East Midlands Airport is a sub-hub for DHL and UPS with flights to / from DHL's hub in New York and to / from UPS's hubs in Philadelphia and Louisville. The only other UK sub-hub is FedEx's at Stansted.
- Gateways – These airports provide the point of entry / exit to the express freight operator's network. They are relatively numerous across continents and they

typically provide one or two daily flights from a gateway to a main hub or to a sub-hub. East Midlands Airport has a range of services to gateway airports in the UK and in Europe.

The express freight operators' networks are set up in this way to provide for reliability and flexibility. Through the use of sub-hubs, the express freight operators have multiple ways of routing cargo between their gateways. The key advantages are that this provides the resilience that is essential to guarantee delivery times and it also ensures that the express freight operators are able to optimise the capacity available on their aircraft. The sub-hub at East Midlands Airport is therefore a nationally important part of the UK's express freight and logistics network. The FedEx sub-hub at Stansted is an important part of the freight network in the South East.

### **The UK Air Cargo Market**

UK air cargo grew rapidly during the 1980's and 1990's and has stabilised over the last 10 years. Overall the UK has more air freight imports than exports, with very little domestic freight. Mail is the principal domestic air cargo. The principal routes for air freight in and out of the UK are the trans-Atlantic routes to the United States and also routes to the major Asian economies. The Asian air freight market is growing at around 19% annually. In the UK, express freight has grown over the last decade, both in total and as a proportion of air cargo and it is estimated that express freight represents 25% of the total UK air cargo market.

There are a small number of express freight operators. These are global businesses, four of which have operations in the UK (DHL, FedEx, TNT and UPS). Between them they directly employ 38,000 people and indirectly support almost 82,000 UK jobs. They are responsible for over 95% of the UK's daily international courier and express shipments.<sup>13</sup>

The express freight sector is important to the UK and it is estimated to contribute some £2.3bn to UK GDP (2010) and to enable £11bn of UK exports annually. Express services are used by a number of sectors of the economy but are used primarily to achieve the next-day delivery of goods and of documents, allowing UK businesses to compete in the global market. Next-day deliveries are part of 'just-in-time' production systems and reduce the high cost of warehousing and enable businesses to achieve rapid, time-definite delivery of high value goods and documents across the world. Although the value of export shipments by the express freight operators is substantial, they do underestimate the true value of the goods carried. This is because they can be, for example, essential spare parts for a manufacturing process with a sale price of a few hundred pounds but without the part lost production could carry costs of thousands or millions of pounds.

Maintaining a network of international connections is vital to UK business and to the UK economy. Surveys undertaken by Oxford Economics have shown that 80% of the UK businesses surveyed stated that their business would be badly affected if international next-day deliveries were no longer available.<sup>14</sup> UK businesses are more dependent on express services than those based in continental Europe. In part this is due to the UK's success in

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<sup>13</sup> Association of International Courier and Express Services (AICES) submission to the Airports Commission – Discussion Paper

2: Aviation Connectivity and the Economy 2013

<sup>14</sup> The Economic Impact of Express Carriers in Europe: United Kingdom. Oxford Economics 2011

attracting foreign inward investment and may also reflect the fact that the UK is an island. These businesses operate with international supply chains that also include just-in-time inventory systems. These processes rely heavily on express freight services. In their research Oxford Economics<sup>15</sup> concluded that, should next-day delivery services not be available in the UK, then UK GDP would be reduced by £3bn annually. This is due to the disruption to the logistics network and to the adverse effects on business investment.

As the express freight operators' product is next-day or guaranteed delivery, in the UK packages are generally collected at the end of the business day for delivery early the following day. For this schedule to succeed the main part of the delivery and transportation process needs to take place during the night. Night flights will always be vital to UK express freight services.

Connectivity and capacity is essential for the air cargo industry, in particular the express freight operations. In air freight terms this connectivity is expressed as the ability to source and deliver goods in a manner that enables the UK operations to be competitive with their services elsewhere in Europe. This requires available airport runway capacity, a central geographic location, a full 24hr operation and excellent surface access connections across the UK and land available for expansion. These key strengths are available at East Midlands and Stansted and are the reasons for the establishment of the express freight operations and they also provide a substantial opportunity for future growth.

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<sup>15</sup> Response to the Department for Transport's Night Flights Consultation. Oxford Economics 2013