

Airports Commission Discussion Paper 06:
Utilisation of the UK's Existing Airport Capacity
Airport Operators Association Response
25 July 2014

Founded in 1934, the Airport Operators Association (AOA) is the national voice of UK airports. We are a trade association representing the interests of UK airports, and the principal such body engaging with the UK Government and regulatory authorities on airport matters. The AOA's members include over 50 airports and more than 150 Associate Members, made up of companies representing a wide range of suppliers in the aviation industry.

In this response to the Airports Commission's Discussion Paper 06¹ the AOA does not seek to comment on the detailed economic analysis in the paper nor on the appropriate shape for the UK's airport network. Instead, our role as airports' trade body is to comment on the strategic success of the airports sector, reflecting the concerns and opportunities raised by airports to ensure policy interventions help the whole sector to thrive. We have answered five of the 25 questions raised in the paper. Below are our responses, with the paragraph numbers from the paper set out in each case. We use the same terminology to describe airports that is used in the Commission's paper, although it should be noted that some airports the Commission might be describing as 'smaller' or 'regional' would not identify with this terminology and 'regional' airports can differ greatly in their size and services.

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

- Is the Commission correct to identify a reduction in air connectivity between the UK regions and the London airport network over the last decade? How do recent new routes to the capital, and the stabilisation in passenger numbers on domestic routes to and from London since 2010, affect this analysis?

Response:

Analysis in the Commission's paper shows that domestic connectivity has fallen (1.10-1.14) and the AOA would agree that an increase in seats on flights has not dented the overall reduction in connectivity. This could be proven by historical analysis of CAA Domestic Air Passenger Traffic data, which details the number of passengers moving between reporting UK airports.²

- How do respondents view these trends developing in the future?

Response:

CAA statistics show that in 2007, passengers at UK airports were at 240 million. They are now at 228 million, following a 3.5% increase in 2013 compared to 2012.³ Airports have seen a rise in

¹ <https://www.gov.uk/government/consultations/use-of-the-uks-existing-airport-capacity-call-for-evidence>

² 2013 and 2012 figures are available here:

http://www.caa.co.uk/docs/80/airport_data/2013Annual/Table_12_2_Dom_Air_Pax_Route_Analysis_2013.pdf The Commission could obtain historical figures from the CAA to compare domestic passengers over time.

³ <http://www.caa.co.uk/default.aspx?catid=80&pagetype=88&sglid=3&fld=2013Annual>

air traffic in the last year and are generally now optimistic about the future. A survey of 25 AOA airports taken in April 2014 found:

- 67% of airports are 'confident' that growth will be stronger in 2014 than 2013;
- 23% believe growth in 2014 will 'more or less match' 2013;
- 9% believe there will be no growth in 2014; and
- 1% believe passenger numbers will decline in 2014.

This includes some of the smaller airports across the UK that the Discussion Paper 06 analyses, and their domestic routes and shows that airports believe the impact of the recession is starting to recede and demand is starting to increase. We have also been told by some of our airports that capacity constraints have reduced domestic routes but we cannot comment in any further detail on whether the other trends identified by the Commission (1.16-1.35). However, it should be highlighted that, as noted in the Commission's report (2.11) some smaller airports have gone out of business and others are still struggling as running costs increase but passengers and freight do not.⁴

- Is the Commission's analysis of the multiple factors influencing domestic air connectivity between London and the UK regions accurate? Of the factors outlined, which are the most significant or important for explaining how the market has developed? What additional factors, if any, should the Commission be mindful of?

Response:

Please refer to our response to the last question, above.

7.4 Questions on how the business models of these airports are changing, and how they can be expected to change further in time.

- Is the Commission right to identify particular financial challenges for smaller airports? Can respondents corroborate or refute any of the Commission's evidence on financial pressures at regional airports?

Response:

Yes, the Commission is right to note that smaller airports are under pressure and that they often lack the market power that larger airports have to negotiate costs and services with airlines and other partners. The analysis by ACI Europe on the costs airports must cover irrespective of passenger figures (2.2-2.3) is well evidenced. At the same time, no Government interventions should distort the aviation market, since its competitiveness serves consumers well in many areas of the UK by providing choice.

A recent example would be the costs resulting from the transfer of security powers from the Department for Transport to the CAA. Airports now pay their security regulator fees on a departing passenger basis; whilst this means the cost would fluctuate with passenger numbers,

⁴ The Commission's paper notes some of the constraints upon airports that impact greatly on smaller airports: "Given these multiple pressures – relatively high fixed costs, difficulty in generating non-aeronautical revenue and tendency to be utilised by relatively few airlines – smaller airports face difficulties in achieving commercial viability." (2.7)

it is still a new cost on top of previous airport costs and airports are expected to pass this on to airlines, which are expected to ultimately pass it to passengers through the cost of a ticket. The reason smaller airports find this cost difficult to pay is that they often lack the bargaining power of larger airports, which are able to attract airlines and negotiate charges that reflect a larger retail offer, better surface access, and other benefits that vary with the scale of an airport. This makes it harder for smaller airports to pass the security costs on to their airlines.

Without prioritising one size of airport over another, there are flexibilities the Government can introduce to help smaller or struggling airports without distorting the market. **The Government should ensure that regulatory requirements do not undermine the sustainable growth of any and all airports and, at the same time, should not disadvantage smaller airports compared to their larger peers.** One example of a useful flexibility comes from the Department for Transport's stance on Hold Baggage Screening Standard 3. Airports are required to implement new Standard 3 equipment by 2020 by EU regulations, but the DfT is insisting on an earlier date of 2018. In light of the possible impact of installing Standard 3⁵ and following requests from the AOA, the DfT has stated that "Some flexibility may be considered case-by-case (and within EU parameters) where the airport can demonstrate a clear operational need on the basis of detailed, robust, funded, board-approved plans."⁶ This is a clear example of a regulatory flexibility that does not prioritise small airports nor distort the market, but may enable them to manage the installation more effectively and assist costs that are potentially more onerous for them compared to their larger counterparts.

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

- Has the Commission correctly identified the major options to support or bolster the regional airports sector? Of the options here explored, which have the potential to be most beneficial?

Response:

In the Commission's analysis there are four options which the AOA believes merit further consideration. Rather than identifying options to bolster regional airports in particular, all of these options adhere to our suggestion above that Government should ensure regulatory requirements do not undermine the sustainable growth of any and all airports. At the same time, they should not disadvantage smaller airports compared to their larger peers.

Air Passenger Duty

The Commission notes that Air Passenger Duty (APD) cannot contravene the EU treaty which requires that the same effective tax treatment must apply to all EU flights (3.28). This should not prevent the UK Government lobbying for change.

However, APD could be cut across the board and this could benefit all airports, especially those trying to introduce new routes with airlines. A cut in APD would give an immediate boost to the aviation industry, making flying more affordable and increasing the UK's connectivity to

⁵ HBS Standard 3 equipment undoubtedly delivers benefits but is much larger than current equipment, much more costly, and in many cases requires building work at the airport so that it can be incorporated (such as changing ceiling heights, reinforcing floors, or making space for it by adapting areas of the airport currently used for other functions).

⁶ DfT presentation given at AOA HBS Standard 3 event on 2 June 2014.

established and emerging markets as more airlines to choose to fly more routes and more regularly to and from UK destinations. The Government should also commission an independent study to consider the impact of APD on the whole of the UK economy, as it has done recently with Corporation Tax and Fuel Duty. In addition, the AOA believes that the Government could consider separate reforms to APD, such as abolishing the tax on child passengers.

As members of the *A Fair Tax on Flying (AFTOF)* coalition (www.afairtaxonflying.org), we endorse the five tests that AFTOF has developed, against which we believe policy-making on APD changes should be judged. These are:

- Ensuring UK aviation is globally competitive: APD is the highest departure tax anywhere in the world. We would encourage the Government to look at our European rivals and what levels of equivalent departure tax our closest competitors are levying as a gauge of the kind of levels that would make the UK more globally competitive.
- Ongoing evaluation of the impact of APD across the entirety of Great Britain, Northern Ireland and the Republic of Ireland: Policy decisions around APD must be framed within the context of changes in departure taxes in neighbouring nations and the effect that these will undoubtedly have upon the UK's competitiveness by comparison.
- Evidence-based policy-making: The Government should undertake rigorous dynamic modeling so that the consequences of APD changes across all sectors of the economy and UK society are fully quantified and understood.
- Delivering consistency and fairness: APD should be judged on how it impacts the least well-off and those whose need for aviation is considered a necessity. For example, the impact of 'double-APD' on domestic flights, the ongoing high-cost for diaspora communities (despite planned changes to take effect in 2015), and the cost of APD for children should be examined more thoroughly and resolved.
- Taking a long-term perspective: The Government should be encouraged to take a long-term approach to APD policy-making, assessing the impacts of APD changes across an entire Parliament and according to the Government's own measures of Tax Policy.

Surface Access Improvements

The AOA welcomes the suggested improvements to surface access to airports in the Commission's Interim Report, reiterated in this Discussion Paper 06 (3.39). We are pleased that the Commission continues to welcome further suggestions from airports as to how their surface access can be improved (3.42) but it would be worth noting that the process for agreeing surface access improvements can be complex to negotiate.

The Aviation Policy Framework states that airports are expected to fund surface access improvements but it can be difficult for airports to invest in rail developments which will profit a rail franchise rather than the airport: investments will require a clear return, and there must be certainty in the process before an airport can embark upon an application for surface access improvements. Airports have commented that there is no clear strategy from national Government or Network Rail for determining how surface access applications are assessed and approved; after meetings with Network Rail this information still remains obscure.

The AOA has made the following four recommendations regarding surface access; any support from the Airports Commission in steering the delivery of these would be welcomed by airports across the UK. The AOA suggests that, in order to create a more integrated transport policy, the DfT should:

1. Assess the level of public transport infrastructure connecting UK airports and identify where there are gaps in present and future demand.

In addition to the list in our Appendix, a further assessment should be undertaken by the DfT to identify gaps and potential solutions. These solutions will need to work in tandem with any recommendations made by the Airports Commission in their Interim Report in December 2013 and Final Report in summer 2015.

2. Ensure rail capacity assessments and Highways Agency route studies include airport access and compare passenger growth assessments and their impact on transport infrastructure.

This is starting to happen but it needs to become common practice. For example, the London & South East Market Study recognises the importance of rail access to airports, and the importance of airports as integrated transport hubs. It sets out a number of conditional outputs for airport rail services with aspirations for improved frequencies, direct services and faster journeys to key airport catchments. The Highways Agency and local highway authorities need to work closely to address road access to airports and the importance of reliability. Route Management Strategies must integrate national infrastructure with locally deliverable solutions and must reflect airport passenger traffic. This practice must be mandated in Government policy at a national level to continue to deliver better transport integration.

3. Set out, with Network Rail and the Highways Agency, how it will make decisions as to which surface access projects at airports will be prioritised in the Government's infrastructure plans.

Whilst the APF states a commitment to improving surface access, clarity as to how this will work is needed. Many airports are keen to improve surface access and they need certainty that the evidence they develop will be considered. The DfT should therefore work with its partners to set out a clear process for prioritising surface access improvements and the type of evidence they expect airports to contribute to support their case.

4. Commit to scoping the creation, with partners, of a single online portal for consumers to plan their journeys and buy tickets, door-to-door.

Such a portal would deliver an integrated service to public and business transport users. In light of its commitment to open data and digital channels, the Government is well-placed to foster an integrated approach between a range of transport partners and should raise the potential of the portal as part of its work to integrate national transport policy and delivery.

National Policy Statement and other planning measures

The AOA agrees with the Commission that the Secretary of State's power to publish a National Policy Statement (NPS) on airports, setting out his assessment of the need for Nationally Significant Infrastructure Projects (NSIPs) of this kind, could be used to support airports that are able to grow (3.45-46). The AOA supports the Commission's recommendation that the threshold for 'nationally significant' projects could be changed for an NPS on airports to support development at smaller or regional airports, which may be below the threshold of 10 million passengers per year or 10,000 traffic movements.

Work that the AOA has undertaken with Sustainable Aviation,⁷ and with the planning teams at airports across the UK, has brought to light some more specific issues in the planning system that could be improved to help airports grow and develop.

1. Noise and land use planning

It is clear that noise is a key issue in enabling sectoral growth. Local authorities should play a key role in curtailing the building of housing and other noise sensitive buildings in noise footprints around airports, so that fewer people in future live in areas where there is aircraft noise. Future noise contour forecasts should also be considered as part of this process.

Local Plans drawn up by local authorities should determine the types of buildings that can be developed under flight paths; and local authorities should use the same noise metrics included in the Aviation Policy Framework, with national planning guidance directing them to do so.

2. Single point of contact and assessment in statutory consultees

Airports report case studies in which the statutory consultees for a development plan can slow down the planning application process significantly. There is an example in which three different departments in Natural England have to assess the same content of a plan at different stages over a six year period. In another example, different officers in the Environment Agency had to approve a scoping process for a development and later the approval of licenses that had already been agreed in principle during the scoping process. Statutory consultees are important within the planning process, but internal complications within the organisations should not slow down and add cost to infrastructure development: a single point of contact in these organisations should oversee individual applications and their progress through the planning system.

3. Consistency and time limits in planning application process

A time limit on the period during which local authorities can request further information would help to speed up planning applications. There is a 21 day limit for responses to planning applications, but where the Environmental Impact Assessment requires more detailed information this 21 day limit is no longer relevant. Local authorities should have a maximum of eight weeks to request environmental and other supplementary information; after this time period they should not be able to continue to add further requests.

Regional Connectivity Fund

One of the start-up finance options noted by the Commission is the Regional Air Connectivity Fund (3.07-3.17). We welcome this recognition of the importance of regional airports and the connectivity they provide. We await with interest the Government's draft guidance, due to be published in July, which will set out how it intends to adhere to the Guidelines whilst making use of the additional funding announced in the 2014 Budget.

⁷ The cross-sector initiative to develop a more sustainable aviation sector in the UK. See <http://www.sustainableaviation.co.uk/>

7.6 Can respondents suggest means of bringing about positive change in the context of these options? What recommendations could the Commission make in these areas?

Response:

Please refer to our response to the last question, above.

7.7 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 (Chapter 6):

Response:

Please refer to our response to question 7.5, above. The measures we detailed here will be relevant to airports within the London and South East area as well as across the other regions and nations of the UK. In addition to these suggestions, we would also like to recommend the changes to airspace detailed in the Commission's Interim Report and reiterated in Discussion Paper 06 (6.19).

For further information, please contact [REDACTED]