



Airports Commission Consultation November 2014:

Response from M.A.G

February 2015

Ten things the Airports Commission needs to do

In preparing its final recommendations for Government, there are ten things the Commission needs to do:

1. Acknowledge the considerable challenges that scheme promoters and Government will face in trying to deliver any of the shortlisted options
2. Be pragmatic about the risk of delay to the delivery of its preferred option, and the possibility that new capacity may not be delivered
3. Recognise the economic value of existing spare capacity at other UK airports and set out a plan to ensure it is developed to its full potential
4. Promote surface access improvements to improve connectivity to airports with existing spare capacity
5. Discount the possibility of Government providing State Aid to support the delivery of new airport capacity
6. Recognise the clear advantages for passengers and the UK economy of developing a strong network of competing airports
7. Adopt a prudent and recognised approach to valuing the economic benefits of new capacity
8. Limit the scope of its recommendations on new capacity to the preferred location for a new runway to be delivered before 2030
9. Acknowledge the strength of Stansted's case for a new runway after 2030
10. Leave the door open for airline and airport competition to drive the delivery of new capacity

Summary

The Commission needs to be pragmatic and practical

It is clear from the analysis set out in the November consultation documents that the Airports Commission ("the Commission") and the three scheme promoters have done considerable work over the course of the last year to develop a detailed understanding of the shortlisted options.

The overriding conclusion that emerges from a review of the consultation material is that all the promoters would face enormous environmental, political and commercial challenges in seeking to deliver a new runway at either Heathrow or Gatwick.

Taken together, there is a material risk that these challenges could either delay or prevent the delivery of the Commission's preferred option.

It is vital then that the Commission's final report sets out a positive and pragmatic response to these challenges. The Commission will naturally want to address as best it can the various issues associated with delivering a new runway, but it should also identify a range of other practical steps to enable Government to mitigate the potential impact on consumers and the UK economy of future capacity constraints.

Government action is needed to make the most of existing capacity

Heathrow and Gatwick already operate with severe constraints today, and it is critical for consumers and the UK economy that spare capacity at other major airports such as Stansted and Manchester is used to its full potential, both in the next 10-15 years and over the longer term. For these reasons, the Commission should submit firm recommendations to Government on the actions needed to make full and effective use of available capacity at other UK airports.

In relation to Stansted, there is a compelling case for the Commission to support the lifting of current planning caps to enable the airport to develop to the capacity of its existing runway. In 2014, Stansted conducted a public consultation on its Sustainable Development Plan which sets out how the airport will develop within pre-existing environmental limits as it grows to its single-runway capacity of around 40-45 million passengers per annum (mppa). Given the growth forecasts for Stansted over the next decade and the constraints at other London airports, making use of Stansted's existing capacity should be at the top of the new Government's 'to do' list as it develops its forthcoming airports policy.

Following the Commission's Interim Report, M.A.G has been leading work with Network Rail, the DfT and other stakeholders to develop proposals for improving rail connections between London, the airport and the wider region. We have recently agreed with Network Rail a package of enhancements that will reduce journey times for airport users to below 40 minutes, a substantial improvement on current performance. The business case for these improvements is very strong, and faster journey times will increase Stansted's ability to attract new passengers and airlines looking to serve the London market. We look to the Commission to provide continued support for these enhancements, and recommend to Government that they are delivered urgently as a key part of an integrated response to the Commission's final report.

For Manchester, there is significant scope for the airport to play a bigger role as the international gateway for the North and help drive the development of a Northern Powerhouse. To fulfil this potential, the airport must be developed as an integral part of the Government's plans for a new high speed rail network in the North, both in terms of HS2 and proposals for improving East-West connectivity. Manchester Airport will then be in a position to serve a wider catchment, which in turn will enable it to offer a stronger network of destinations and frequencies. Although the benefits

of these investments will be felt over the longer term, decisions taken now will have profound implications for the region's future, both in terms of international connectivity and economic potential.

In general, there would be significant benefits for consumers and the UK's regions of improvements to long haul connectivity from a wide range of UK airports. A simple and effective way to achieve this would be to offer airlines introductory incentives for new long haul services, in the form of a time-limited exemption from APD. Delivered in parallel with potential changes to APD in Scotland, these incentives would mirror and reinforce the commercial incentives already offered by airports, and enable airports across the UK to compete more successfully against European rivals in securing new long haul services. We would urge the Commission to look again at the potential for APD reforms as part of a package of practical measures aimed at making the most of the UK's existing airport capacity.

State Aid cannot be used by Government to help deliver new capacity

We recognise the Commission's desire to see its preferred option delivered as quickly as possible, and its focus on identifying the ways that Government could provide support to help address and mitigate the challenges that will be faced in delivering a new runway. However, in thinking about how Government could address these challenges it is important that the Commission discounts altogether the possibility of using State Aid to support the delivery of new capacity.

The consultation documents suggest that there may be a need for Government to assist the process by contributing to the airport's fair share of surface access costs and providing support for the financing arrangements needed to deliver new capacity. Such assistance would almost certainly be blocked by the European Commission on the basis that it would constitute State Aid and distort competition between London's airports. These issues are crucial to the Commission's assessment of commercial deliverability, given the range of surface access costs that have been identified and the substantial financing requirements for the three shortlisted options.

The Commission's consultation documents are based on a fundamental assumption that Government will fund all of the surface access projects associated with each runway option. Even with this extreme hypothetical assumption, the Commission recognises that raising the necessary level of financing for each option would be challenging. Adding in the additional surface access costs that would need to be paid for by the scheme promoter (for State Aid reasons) and the risks associated with raising charges to an even higher level, would create further commercial pressures for the respective promoters.

By adopting a false assumption about the availability of State Aid, either to meet surface access costs or to support the necessary financing arrangements, the Commission risks introducing a material bias into its final assessment in favour of the options that would require the greatest amount of Government support. This in turn could introduce a significant flaw into the Commission's assessment of its preferred option. The correct approach would be for the Commission to base its assessment of costs and commercial viability on a straightforward interpretation of the EC's recent State Aid guidelines for airports, which would preclude public support for infrastructure costs that should be paid for by airports.

The benefits of new capacity need to be valued using tried and tested methods

The Commission has adopted an "innovative" methodology to value the economic benefits of the shortlisted options, which the consultation document recognises "should be treated with caution". This raises significant questions about the appropriateness of introducing major innovations at the final stage of the evaluation process for key elements of evidence, and the need for the

Commission to adopt a consistent theoretical approach to valuing both the benefits and impacts of the shortlisted options.

The economic benefit of the shortlisted options is likely to be a material factor in the Commission's final assessment of its preferred option. However, the consultation provides no clear guidance on how much weight the Commission intends to attach to the new evidence, compared with more conventional methods of evaluating economic benefits. This makes it difficult to know how to interpret the relevance of differences in the economic benefits between the different options.

Equally, the Commission has not presented an equivalent valuation for the environmental and social impacts of the shortlisted options. Unless this evidence is available, the Commission will be unable to make meaningful and consistent comparisons between the options using the new economic data. Without it, the Commission will have no proper basis for determining how to weigh up the economic benefits (calculated using the innovative methodology) and environmental and social impacts. Put simply, the Commission would be comparing 'apples and oranges'.

For these reasons, the Commission should revert to more tried and tested approaches to evaluating economic benefits in its final assessment of the options. Otherwise, there is a material risk that the Commission will introduce a systematic bias into its decision making process, in favour of options that appear to have the biggest economic benefit, while at the same diminishing the significance of environmental and social factors in its assessment.

Passengers, airlines and the economy will be best served by a network of competing airports

There are two fundamental issues that are still to be resolved by the Commission:

- firstly, whether a network of competing airports across the UK should be preferred from an economic perspective to an expanded hub airport; and
- secondly, whether any economic advantage conferred by having an expanded hub would be outweighed by the greater environmental and social impacts associated with its development and operation.

These have been amongst the most hotly contested and controversial issues in the Commission's process. Despite this, the November 2014 consultation document does not provide a clear indication of the Commission's views on these points. Our view is that passengers, consumers and economy would be best served by developing a strong network of competing airports across the UK.

The Competition Commission's 2009 decision to break-up the London airports provided a strong boost to the competitiveness of the UK airports sector, and consumers and airlines are already experiencing the benefits of this restructuring. Over the next decade, this competition will gather momentum and drive substantial further improvements.

The Commission has an important opportunity to lock-in these benefits by confirming that new airport capacity should be developed in a way that will encourage the development of a network of competing airports. The alternative of developing further hub capacity at Heathrow and increasing its dominance in the London and UK market would be a major retrograde step, and something that would stifle competition, innovation and investment.

The planned development of a network of high speed rail across the UK (including HS2 and East-West connectivity in the North) and improvements to the quality of Stansted's rail links to London will further strengthen the network model. These schemes will significantly enlarge the catchments of airports across the UK, providing of passengers with much greater choice.

A network of competing airports will play a strong role in supporting economic growth in different regions across the UK. In particular, Manchester Airport is the international gateway for the North and will make a key contribution to the creation of a Northern Powerhouse. Stansted will perform a similar role in supporting the growth and regeneration of east London, as well as the development of the East of England and London-Stansted-Cambridge corridor. By contrast, concentrating new capacity at Heathrow is likely to have a counter-productive impact on wider efforts to rebalance the UK economy.

There are also strong grounds to believe that a network of competing airports will be better suited to responding to the changes we are likely to see in the aviation industry over the next 10-20 years. Hub capacity is expensive and complex, and will not provide the necessary support to the development of innovative new airline business models.

The Interim Report significantly understated the case for new runway capacity at Stansted

There have been a number of material developments since the publication of the Interim Report that collectively have a significant bearing on the Commission's original assessment of its option for new runway capacity at Stansted.

The first of these is the Commission's revised traffic forecasts. These now show Stansted reaching 35mppa in around 2030, a decade earlier than at the time of the Interim Report. This is highly significant because the Commission previously decided not to take Stansted options forward into the second phase largely on the basis of its assessment that the airport would have spare capacity until at least 2040. In the Commission's view this meant that a new Stansted runway would not help meet the predicted capacity shortfall in London before 2030. Had the Commission been using its current traffic forecasts at time of the Interim Report, there would have been a clear case for including Stansted on the shortlist for the second phase of the process.

The second development is a product of M.A.G's engagement with the Commission's technical advisors, which has provided an opportunity to review the land take, costs and environmental impacts that informed the Interim Report's assessment of a new runway at Stansted. From this exercise, we have established that the Interim Report substantially overstated the land take required for a new runway at Stansted, as well as the impacts and costs associated with such a development. In other words, the option for a new runway at Stansted would be substantially cheaper, require significantly less land and have much smaller impacts than the Commission previously thought.

Taken together, these material developments highlight the fact that the Commission's Interim Report significantly understated the strength of Stansted's option for new runway capacity. We do not raise these issues in late bid for reinstatement on the Commission's short-list. Rather, we raise them to highlight the scope for the Commission's assessment of different runway options to change fundamentally over a period of time.

Competition needs be encouraged to drive the right outcome for consumers

This will be particularly relevant in an airport market where competition has only recently been introduced, following the break-up of BAA's monopoly ownership. There is already clear evidence to show that separate ownership will deliver better outcomes for passengers, and that competitive rivalry between airports will intensify over time. The Competition Commission's strongly held view was that competition would serve as a powerful stimulus for investment and drive airports to develop cost-effective solutions for new capacity.

Given the inherent uncertainties in the evidence base and the rapid pace of change in the aviation industry, the Commission (and the Government) should adopt a flexible approach to the delivery

of new runway capacity which encourages competition to drive the right outcome for consumers. In such an environment, the right approach would be to allow the market to decide how an industry should develop, rather than allocate this responsibility to one group of people.

It should be open for airports to bring forward their own proposals for new capacity at the appropriate time; precluding airports from doing so would create an effective monopoly over the development of new capacity for the Commission's preferred option. The clear lesson from the repeated cycles of activity over the last 50 years is that creating such a monopoly would be likely to reduce the chances of new capacity being delivered.

To create constructive tension there needs to be scope within future Government policy to allow rival airports to promote competing alternatives. Such a framework would still enable the Commission and the Government to identify a preferred option for the first new runway, but it would 'leave the door open' to other airports bringing forward their own proposals if they can be shown to be consistent with the Government's policy framework.

In such a world, it ought to be possible for the 'second' new runway that the Commission assesses will be needed in the period to 2050 to be delivered before the 'first'. The opportunity to overtake – and the threat of being overtaken – need to be present for competition to act as spur to innovation and investment.

For these reasons, a competitive policy framework based around a clear objective of developing a strong network of competing airports across the UK will deliver the right outcome for passengers, consumers and the economy.

Introduction

Manchester Airports Group (M.A.G) welcomes the opportunity to respond to the Airports Commission's consultation on the three shortlisted sites (Gatwick Airport Second Runway, Heathrow Airport Extended Northern Runway and Heathrow Airport North West Runway).

M.A.G owns and operates four airports in the UK (Manchester, London Stansted, East Midlands and Bournemouth) and handles some 44 mppa. Our 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.

With airports in both London and the UK regions, M.A.G has a national perspective on the airport capacity debate. We believe that preserving the UK's status as a leading aviation hub will require a network of airports across the country to play their part in providing international connectivity. Our objective in responding to the consultation is to encourage the Commission to set out a range of recommendations in its final report that look wider than just identifying the preferred location for a new runway at Heathrow or Gatwick.

In our view, the Commission should attach the highest possible priority to policy measures that will maximise the use of existing runway capacity. These actions need to be at the top of the incoming Government's 'to do' list, given their potential to ease capacity pressures in the short to medium term and promote competition in the long term. The considerable challenges associated with the implementation of any of the shortlisted schemes means that there is a particular urgency associated with such action, given the risks to the delivery of the Commission's preferred option.

Our response to the consultation questions:

The summary section of our response provides an overview of M.A.G's views on the Commission process and the consultation material, and the priority issues for the Commission as it finalises its recommendations to Government.

In this section, we follow the structure provided by the Commission's consultation questions to highlight the following themes:

- the need for a pragmatic approach given the challenges relating to the delivery of the three shortlisted options;
- the importance of making 'best use' of existing airport infrastructure, and the need to include proposals on these issues in the final report to Government;
- the very strong likelihood that Government will be unable to use State Aid to help address the commercial risks and challenges associated with delivering new capacity;
- the value of a flexible and 'open' approach to the development of new capacity in an industry that is likely to experience significant change over the next 10-20 years; and
- the importance of allowing competition between UK airports to drive the best outcomes for passengers, airlines and the economy.

Q1: What conclusions, if any, do you draw in respect of the three short-listed options?

Significant challenges remain ahead in the delivery of new capacity

The Commission's consultation documents set out a detailed analysis of the three shortlisted options. We understand the reasons for the Commission conducting this detailed analysis and broadly agree with the framework and approach that has been used.

Each option appears to have its own strengths and weaknesses, and no clear 'winner' emerges from the Commission's analysis. The Commission will need to consider the appropriate approach to weighing-up the conflicting evidence on each of the options in coming to a view about its preferred location for a new runway.

The overriding conclusion we draw from the consultation documents is that all the shortlisted options present considerable challenges and risks from a delivery perspective, including:

- **the environmental impacts of developing and operating a new runway**

At Heathrow, aircraft noise would be a substantial issue for up to nearly one million people, even after unprecedented levels of mitigation and compensation are taken into account. At Gatwick, the impacts would be lower but expansion would still see the number of people affected by aircraft noise double by 2050, with noise and disturbed tranquillity also identified as a potential delivery risk by the Commission.

Although the air quality impacts associated with runway development are not yet fully understood by the Commission, the consultation documents make clear that there are likely to be severe challenges in meeting relevant standards around Heathrow for both shortlisted options. Delivery risks also remain over the flooding impact of all the shortlisted schemes and the feasibility of relocating the energy from waste plant required by the development of the Heathrow NW option.

- **the risk of a legal challenge to the delivery process**

Resistance to expansion remains a significant issue for all three options. Those opposed to the development of new capacity could initiate legal challenges to delay or block the delivery process. These could include seeking judicial review of the Commission's final report, the Government's subsequent aviation policy and any planning decisions related to the preferred option.

- **the challenge of building and maintaining political support for the preferred option**

The level resistance to expansion also raises questions as to their political deliverability. In west London, opposition to airport growth was an electoral issue in 2010, with local candidates under pressure to oppose expansion. The Liberal Democrat Party and many elected representatives and candidates remain opposed to any growth. Whilst the decision is ultimately a matter for Government, strong political resistance from opposing groups to all the schemes will add to the delivery challenge. The possibility also remains that an incoming Government (or political instability) could lead to a further change in policy.

- **the commercial challenge of financing the construction a new runway**

The Commission has identified financing challenges as a potential risk for all of the shortlisted options. The capital investment required will lead to significant price rises for passengers and airlines; even without the airports making substantial contributions to surface access requirements the Commission estimates that per passenger charges will need to rise to a peak of £34 at Heathrow and £23 at Gatwick. As the Commission recognises, the scale of these increases would create substantial commercial risks for

investors at a time of unprecedented levels of indebtedness. Airlines are already concerned about the prospect of having to pay for the next generation of runway capacity, with no guarantee that they will be in a position to benefit from it. As we highlight in response to Q7, it is highly unlikely that the EC would permit the Government to use State Aid to address these commercial risks to support delivery of the preferred option.

The consultation documents bring these challenges into sharp focus, and we would expect the Commission's final report to propose measures to mitigate as many of them as possible. The reason we highlight the challenges in our response is to emphasise the need for the Commission also to adopt a pragmatic and practical approach to preparing its recommendations to Government.

We recognise that the Commission will want to maximise the prospects of new capacity being delivered. Alongside this, however, the Commission should also be realistic about the potential for a range of challenges, either individually or cumulatively, to delay or prevent this outcome. To protect against this possibility we would encourage the Commission to set out a package of measures to minimise the impact of capacity constraints before a new runway can be delivered.

With Heathrow and Gatwick already either full or nearly full, there is an urgent priority for a robust plan to maximise the capacity provided by existing runways. We set out below M.A.G's proposals for such a plan.

RECOMMENDATION 1:

Government policy should provide strong support for 'best use' of existing infrastructure, both as an interim measure and one that complements new capacity

With new runway capacity at least ten years away and considerable challenges associated with the delivery of all the shortlisted options, there will continue to be a high premium on making 'best use' of current airport infrastructure. Making best use of capacity that is already available makes sound environmental and economic sense because it has much lower environmental impacts compared with building a new runway, and it can be delivered at a fraction of the cost.

The additional capacity available from making best use of existing infrastructure is well in excess of that from any of the shortlisted options. For example, Stansted's single runway will eventually grow to handle some 40-45mppa, an increase of around 25mppa on current throughput. Manchester is the only other UK airport other than Heathrow with two runways: 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 would be realised by making the best use of existing infrastructure at Manchester and Stansted alone, broadly equivalent to an airport the size of Heathrow and significantly more incremental capacity than could be realised from an additional runway at either Heathrow or Gatwick.

London Stansted's catchment is home to some of the UK's most innovative and dynamic industries, and the region's economy is growing fast. Over the last 20 years, London's economy has grown 1.5 per cent a year more quickly in the East than it has in the West. The population in Stansted's catchment is also set to grow significantly over the coming decades, up by some 2.4 million people by 2040 – an increase of around a quarter on today's population. The airport has a critical role to play in serving that growing population and relieving congestion at other London airports.

The international connectivity that Manchester Airport provides will be critical to the future economic success of the North of England, in particular to the Chancellor's vision (with cross-party support) of a 'Northern Powerhouse' to drive economic growth and help rebalance the UK economy. Direct air services from the North will provide the greatest economic benefit and create a strong and sustainable network of services from the airport. The development of long haul services will also have the added benefit of relieving pressure on congested London airports, with four million passengers a year from Manchester's catchment area 'leaking' to the London airports to catch flights. Best use gives passengers outside the South East an alternative to hubbing over Heathrow and the preferred choice of flying from a local airport.

Economic success is about goods as well as people. East Midlands Airport is the UK's dedicated national air freight hub and plays a significant national role in supporting international commerce and trade flows. Specific Government support for the continuation of this role would provide assurance about the importance the Government attaches to this nationally significant role.

RECOMMENDATION 2:

Government policy should support a raising of Stansted's planning caps

Stansted is currently subject to planning caps that limit the airport's throughput to 35 mppa and 264,000 air transport movements each year. The planning caps at their current levels will prevent the airport from making the best use of existing runway capacity.

The Commission's current forecasts predict that Stansted's current passenger cap could be reached as early as 2025 in some scenarios. We will, therefore, need to take action within the next five years or so to raise these limits so that airlines and other stakeholders are clear about Stansted's ability to accommodate future growth up to the capacity of its existing runway.

Our response to the Interim Report welcomed the Commission's intention to examine the lifting or removal of these constraints in the second phase of its work, and we urged the Commission to make a specific recommendation to Government on this issue in its final report. Our comments on the Commission's subsequent working paper on the utilisation of existing airport capacity highlighted the Commission's earlier views about the importance of making optimum use of existing capacity before any new runway capacity in the South East could come into operation. We also welcomed the Commission's stated intention to make recommendations to Government on these issues inform the development of any future National Policy Statement.

In support of this, we recently conducted a public consultation on Stansted's development to the capacity of its single runway, as part of draft proposals set out in the airport's Sustainable Development Plan (SDP). The draft SDP provides clear evidence on the balance of impacts and benefits of making full use of Stansted's existing runway capacity. For example, our assessments show that the airport can grow from 35 mppa to the capacity of the single runway while remaining well within existing environmental limits.

During the consultation we engaged with over 500 stakeholders on our proposals, and we received over 60 written responses on the draft plan. Stakeholder feedback was strongly supportive of enabling the airport to grow to the capacity of the existing runway. In November 2014, representatives from 13 partner organisations wrote the Commission to express their support for making best use of Stansted's existing capacity. The letter encouraged the Commission to regard measures that would unlock the potential of Stansted's existing

infrastructure as an immediate priority for Government, given the importance of the airport to the region and London over the next 10-15 years.

The Sustainable Development Plan and the feedback from local and regional stakeholders provides a robust evidence base for the Commission to be able to recommend to Government that its future airports policy should support the lifting or relaxation of planning current caps. Such a recommendation would be a key part of a practical and pragmatic response to the challenges that will be encountered in seeking to deliver new runway capacity.

RECOMMENDATION 3:

Government should commit to improving surface access to Stansted

The Commission is well aware of M.A.G's determination to secure better rail connection between Stansted and London, and we appreciate the Commission's willingness to be proactive in supporting the case for improved rail access as a means of making best use of the airport's existing capacity.

In particular, we welcomed the Commission's recommendation to the Chancellor ahead of the 2013 Autumn Statement on the need for an 'urgent', 'serious' and 'detailed' study of potential improvements to the West Anglia Main Line (WAML). We also welcomed Sir Howard Davies' recent letter to Network Rail, expressing disappointment with the provisional conclusions set out in its draft Anglia Route Study.

Both of these interventions by the Commission have helped focus attention on the need to improve rail connections to Stansted, as part of an overall strategy of making the most effective use of existing airport capacity.

Following joint technical work with Network Rail during its consultation on the draft Anglia Route Study, we have agreed a common position on a package of infrastructure improvements that our analysis shows will reduce journey times for airport users by around eight minutes. Subject to engagement with other stakeholders, Network Rail has agreed to incorporate this package of enhancements in its final route study for publication later this year. Once delivered, these improvements will enable Stansted to offer journey times to central London of less than 40 minutes, strengthening its ability to compete against other London airports and attract a wider mix of airlines. Importantly, the enhancements will also reduce journey times for other users of the mainline, particularly longer distance commuters.

These incremental journey time improvements should be seen as an first urgent step in a phased programme of investment on the WAML. Beyond this, there is a compelling wider economic case for investing in additional track capacity on the WAML, both to provide additional train paths to support major new residential developments in the Lee Valley and to enable further reductions in journey times for longer distance services, including those serving the airport. We are currently working closely with the London Mayor, the GLA and other stakeholders to demonstrate the economic case for four-tracking to be delivered as part of Network Rail's CP6 investment programme.

As part of its final report, we would encourage the Commission to recommend that the Government commit to delivering the first phase of journey time improvements as soon as funding allows, both as part of its on-going investment in the WAML and also its wider airports policy. This would provide appropriate recognition of the strategic role that Stansted needs to play in meeting London's capacity needs before a new runway can be delivered.

RECOMMENDATION 4:

Government should ensure Manchester Airport is developed as an integral part of HS2 and future East-West rail improvements

The Commission is also aware of M.A.G's commitment to improving surface access links to Manchester Airport. We recognise that access to broader catchments will enable primary airports such as Manchester and Stansted to support services to more destinations, with greater frequency than they do today.

In the North, the potential exists with the combination of HS2 and radically improved East/West rail connections for Manchester Airport to sit at the heart of a cross-country high speed rail network, linking north and south, east and west.

Connecting Manchester Airport directly to both these lines will provide key population centres in the North with fast and convenient access to global connections. Better international connectivity will support economic growth and regeneration across the region, and promote an overall rebalancing of the UK economy.

In addition, with a broader catchment Manchester Airport will be in a position to support services to a broader range of long haul destinations, and to offer greater frequencies to key business destinations. This will bring substantial economic benefits in terms of enhanced connectivity for Manchester, the North West and the wider Northern region, both in terms of facilitating international trade and attracting inward investment.

We recognise that the timescales for delivering HS2 and improved East-West rail services mean that it is likely to be at least 10-15 years before the benefits of these investments are felt. However, improved rail connectivity across the North will have a significant positive impact not only on the way the region's economy functions, but also the decisions that air passengers make in terms of airport choice and the region's future airport capacity needs. In the short term, it is important that the plans being developed for HS2 and East-West rail provide for direct services to Manchester Airport.

These issues and opportunities have not featured prominently in the Commission's work to date. However, we firmly believe that there would be significant value in the Commission recommending to Government that Manchester Airport should be integrated into the development of HS2 and enhanced East-West rail connectivity. This would recognise, as Sir David Higgins has done, the substantial benefits that could be realised by adopting an integrated approach to the development of nationally significant transport infrastructure.

RECOMMENDATION 5:

Government should reform APD to develop better long haul connectivity across the UK

We have consistently argued that APD puts UK aviation at a significant competitive disadvantage to other EU countries. Few countries apply any aviation taxation, and UK rates are much higher than those that do. Whilst we welcome recent proposals to narrow the number of bands to two, and to remove APD from children, the level of APD remains unacceptably high.

In previous submissions to the Commission we have set out the case for a time-limited 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.

M.A.G works 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 support airlines while new services are 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, with would be particularly beneficial in promoting trade and inward investment across the UK's regions.

A temporary exemption from APD would create strong incentives and have a positive impact on the attractiveness of new, economically significant long haul services from regional airports. The move could be introduced at zero direct cost to the Treasury, since the Exchequer receives no APD on services that are not operating at present. As routes become established, they would increase long term tax revenues both through the economic activity stimulated by the new services but also through incremental APD revenues.

The Commission rejected the proposal for a temporary APD holiday in its Interim Report, citing concerns 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 demonstrates that workable guidelines can be developed and implemented to achieve this. Furthermore, lower rates of APD on new long services would not be unduly discriminatory because they would support the achievement of important public policy objectives, namely increased connectivity and competition and increased economic activity across the UK.

The prospect of APD being devolved to Scotland has the potential to create additional market distortions. To avoid English airports being placed at a further competitive disadvantage and to promote best use, a temporary APD holiday should be urgently reconsidered. As such, we would strongly encourage the Commission to look again at the proposal for a time-limited exemption for new long haul services as part of its work on the utilisation of existing airport capacity. We firmly believe that a time-limited exemptions it will stimulate increased long haul connectivity and significant economic benefits across the UK's regions.

Q3: Do you have any comments on how the Commission has carried out its appraisal?

M.A.G has concerns about the way the Commission has assessed the wider economic benefits of the three shortlisted schemes. The methodology used by the Commission to assess the GDP impacts of the shortlisted sites is recognised as being 'innovative', and comes with a warning that the results should be 'treated with caution'. This raises serious questions about the validity of the values quoted, and the appropriateness of using these figures in the final analysis of the shortlisted options.

Conversely, the Commission has produced no equivalent valuation of the environmental and social impacts of the three options. This makes it difficult for the Commission, third parties and the incoming Government to compare economic benefits on the one hand with social and environmental impacts on the other.

For these reasons, the Commission should revert to more tried and tested approaches to evaluating economic benefits in its final assessment of the options. Otherwise, there is a material risk that the Commission will introduce a systematic bias into its decision making process, in favour of options that appear to have the biggest economic benefit, while at the same diminishing the significance of environmental and social factors in its assessment.

Q7: Do you have any comments on the Commission's business cases, including methodology and results?

We recognise the Commission's desire to see its preferred option delivered as quickly as possible, and its focus on identifying the ways that Government could provide support to help address and mitigate the challenges that will be faced in delivering a new runway. However, in thinking about how Government could address these challenges it is important that the Commission discounts altogether the possibility of using State Aid to support the delivery of new capacity.

The consultation documents suggest that there may be a need for Government to assist the process by contributing to the airport's fair share of surface access costs and providing support for the financing arrangements needed to deliver new capacity. Such assistance would almost certainly be blocked by the European Commission on the basis that it would constitute State Aid and distort competition between London's airports. These issues are crucial to the Commission's assessment of commercial deliverability, given the range of surface access costs that have been identified and the substantial financing requirements for the three shortlisted options.

The Commission's consultation documents are based on a fundamental assumption that Government will fund all of the surface access projects associated with each runway option. Even with this extreme hypothetical assumption, the Commission recognises that raising the necessary level of financing for each option would be challenging. Adding in the additional surface access costs that would need to be paid for by the scheme promoter (for State Aid reasons) and the risks associated with raising charges to an even higher level, would create further commercial pressures for the respective promoters.

By adopting a false assumption about the availability of State Aid, either to meet surface access costs or to support the necessary financing arrangements, the Commission risks introducing a material bias into its final assessment in favour of the options that would require the greatest amount of Government support. This in turn could introduce a significant flaw into the Commission's assessment of its preferred option. The correct approach would be for the Commission to base its assessment of costs and commercial viability on a straightforward interpretation of the EC's recent State Aid guidelines for airports, which would preclude public support for infrastructure costs that should be paid for airports.

Q8: Do you have any other comments?

The scope of the Commission's final report

The Commission's final report should feature prominent recommendations for making best use of existing infrastructure, and make a strong case for these to be seen as priority issues for future Government policy. These proposals should include: the removal of Stansted planning caps, improvements to rail connections to Stansted, the need to make Manchester Airport an integral part of HS2 and improved East-West rail connectivity and proposals to reform APD.

In addition, the Commission should maintain its stated position that it would be inappropriate to make specific recommendations about the location of any second new runway in the period to

2030. We agree with the Commission that it would be premature to reach a firm view on any such runway until there is greater clarity on long term effects of changes in the structure of the aviation industry and the nature of demand.

There would also be value in drawing attention to the Commission's view that Stansted is an important option for a second new runway in the period to 2050. Furthermore, the Commission should make clear that there should be no presumption that the 'losing' location from the current process should be considered as the preferred option for the second new runway.

In this respect, the Commission should refer to its revised traffic forecasts for Stansted which now show much faster growth in the period to 2030 than was the case at the time of the Interim Report, as well as the results of the further engagement with M.A.G during 2014 to consider the Commission's option for a second runway at Stansted. In our view, this work has demonstrated that the Commission's option from the Interim Report significantly overstated the amount of land, the environmental impacts and costs associated with an additional runway.

In summary, there is a strong case for the Commission to make reference in its final report to:

- the importance of primary airports in delivering economic growth in the regions in which they operate;
- specific recognition of Manchester Airport's role as the gateway to the North of England and a key driver of the Northern Powerhouse;
- specific recognition of Stansted's role, both as a short term solution and long term contributor to competition and growth in the South East;
- recognition of the need for growth in air freight and the national role of East Midlands Airport; and
- specific recommendations and calls on the Government for urgent action to unlock existing airport capacity through 'best use' policy measures.

The form of the National Policy Statement on airports

The Commission's final report will also provide advice to Government on a future National Policy Statement (NPS) for airports and an updated Aviation Policy Framework. It is critical that the NPS prioritises a 'best use' approach to airports policy, both as an interim measure and in view of the risks associated with the delivery of the three shortlisted schemes. Measures to make the most effective use of existing capacity should be the first priority of future airports policy, in view of the significant benefits, low impacts and deliverability of such an approach.

The NPS should specifically recognise the national significance of the UK's primary airports, including Heathrow, Gatwick, Manchester and Stansted. The NPS should provide specific policy support for the development of these airports, in recognition of the important role they play as international gateways for their respective regions.

The NPS should promote competition between airports, as recommended by the Competition Commission in its 2009 review of the UK airports market. In particular, the Competition Commission advised Government that it should:

- take into account the impacts of a new NPS on competition in the aviation market;
- ensure that a future NPS for airports does not unduly constrain the aviation market and its ability to bring forward new proposals that may better meet consumer needs; and
- give due consideration to the ambitions of the new owners of London airports, to ensure these are properly reflected in the policy.

We recognise that it is the Commission's intention to recommend a preferred option to the incoming Government in its final report. One way in which the Commission could balance this

approach with the need to promote competition would be to adopt the same broad principles that underpin the Government's policy framework for the UK ports sector.

The Government's NPS for Ports creates a competitive environment for the delivery of new capacity, and explicitly acknowledges that a dynamic market makes it challenging to predict future trends. The NPS embraces the fact that UK ports compete with each other, and advocates that competition will lead to the best outcomes for industry and consumers. The NPS for Ports states (para 3.4.12):

"The forecasts....did not attempt to predict the locations where demand would manifest, partly because this is dependent on changes in the market, which are difficult to predict now. For the same reason, the Government does not wish to dictate where port development should occur. Port development must be responsive to changing commercial demands, and the Government considers that the market is the best mechanism for getting this right, with developers bringing forward applications for port developments where they consider them to be commercially viable."¹

The approach adopted by Government for the ports sector would create a more durable and enduring framework for the delivery of new airports capacity and would be consistent with the pro-competition approach advocated by the Competition Commission. For the same reason, an airports NPS should not offer preferential treatment for the development of new capacity relative to making best use of existing capacity, given the competitive distortions that this would introduce.

A second new runway beyond 2030

The Commission restated in the consultation documents its intention to make recommendations to Government in its final report as to 'when, how and by whom' the case for any second new runway should be considered.

In December 2013, the Commission chose not to shortlist a Stansted option for the second phase of its process for two main reasons. The main reason was the Commission's focus on identifying options that would help meet the anticipated capacity shortfall in London airport capacity in the period before 2030. Its forecasts at that time suggested that Stansted would still have significant spare capacity in 2030, and would not need an additional runway until around 2040.

Following the publication of the Interim Report, the Commission provided M.A.G with clear assurances that it would not make any specific recommendations about the location of a second new runway in the period after 2030 in its Final Report, and that it saw Stansted as an important option for a new runway in the future.

We welcome the Commission's assurances on these issues and its engagement with M.A.G since the publication of the Interim Report, in particular on its approach to forecasting demand for Stansted and our concerns about the inability of the DfT's forecasting model to capture the impact of commercial agreements with airlines that are designed to incentivise growth. In this respect, we welcome the Commission's recent traffic forecasts which now show much faster growth at Stansted in the period to 2030, with the airport reaching a throughput of 35mppa some ten years earlier than the forecasts published at the time of the Interim Report.

¹ *National Policy Statement for Ports*, DfT, January 2012, p15

The material changes to the Commission's traffic forecasts over the course of less than a year reinforce the need for Government to adopt a flexible and open approach to the development of new runway capacity. Given the demonstrable scope for circumstances to change materially over a relatively short timeframe, there is the clear possibility that the evidence underpinning the Commission's assessment of its preferred option could also change in due course

In our view, it would be wrong for the Commission to propose an approach to delivering new capacity which effectively precluded alternative runway options from being brought forward if they can be shown to meet the Commission's own criteria. It is important that airports have the ability to bring forward different proposals at the appropriate time to drive competition between airports in the delivery of new capacity.

Conclusion

The Commission is faced with huge uncertainty in making its recommendations, with no one shortlisted option offering any guarantees in terms of deliverability. The Commission's conclusions and recommendations should reflect this uncertainty by keeping options open, and ensuring that the emerging competitive environment for airports is allowed to flourish. That means placing a significant premium on 'best use' and recommending specific policy proposals to promote it, and avoiding a situation where its preference for new capacity at one location precludes expansion anywhere else.